

FINANCIAL TIMES

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Monday November 10 1986

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US money-makers take their skills to China, Page 24

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World news Business summary

Boost for Kohl in regional elections

West Germany's opposition Social Democratic party (SPD) suffered a crushing defeat yesterday in important regional elections in the northern city of Hamburg.

Gains by the conservative Christian Democratic Union (CDU) gave Mr Helmut Kohl, the Chancellor and CDU chairman, another powerful boost in the campaign leading to the country's general elections on January 25.

Last night's results look likely to lead to complicated coalition negotiations between the SPD and CDU over forming a new government for the Hamburg city-state. Page 24

Tamils held

Several hundred Tamil militants were detained in the south Indian city of Madras and a large quantity of arms seized as Sri Lankan guerrillas predicted a co-ordinated push by New Delhi and Colombo to end the Tamil insurgency. Page 4

Atomic accord

An agreement between Cuba and Argentina calling for collaboration in the peaceful use of atomic energy, the first of its kind in Latin America, has been signed in Havana.

Britain defies boycott

Britain defied a west European boycott of ceremonies honouring South African killed in both world wars. Britain, the US and Taiwan were the only foreign countries represented at a ceremony in Johannesburg attended by President P. W. Botha.

Soweto gun battle

South African police fought a gun battle with black youths as the latest round of violence continued in the township of Soweto, Johannesburg. There were no injuries in the clash.

PLO pledge

The Palestine Liberation Organisation said it would continue its military operations against Israel despite a 'successful' meeting with Israeli officials in Romania.

Air suspect arrest

Japan arrested a man suspected of smuggling a grenade aboard the Thai Airways aircraft that made a forced landing last month after a mid-air explosion.

Israel denies kidnap

Israel admitted holding Mordechai Vanunu, said to have leaked details of the country's nuclear weapons, but denied kidnapping him in Britain. Page 4

Volcano victim

Vincenzo Monti, a 20-year-old Italian, fell to his death on Mount Etna, Sicily, after the remains of a lava flow crumbled beneath him.

Tankers attacked

Irish military aircraft were reported to have hit two supertankers, one with a Cyprus flag, the other Iranian, in a renewal of Gulf war raids on shipping.

Whaling boats sink

Two whaling boats sank in Reykjavik harbour, Iceland, and harbour officials said they were probably sabotaged. Iceland has been urged by the US to halt whaling.

Melilla vote

Modern inhabitants of Spain's north African enclave of Melilla have voted to end all contacts with the government in Madrid, saying they have been deceived over promises of Spanish nationality.

Aquino's warning

Philippine President Corason Aquino warned disident military groups against staging a coup during his four-day visit to Japan which begins today. Page 6

Hutton rebuffs \$1.6bn offer

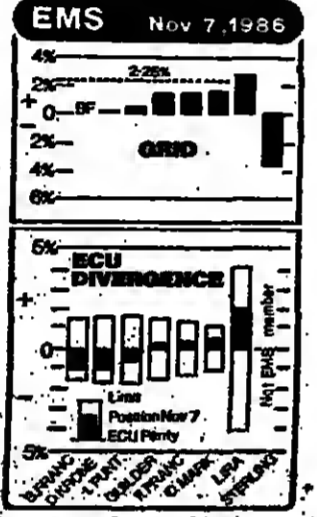
E F HUTTON, troubled Wall Street brokerage firm, has rebuffed a \$1.6bn takeover approach by American Express, US financial services giant. Page 24

BURROUGHS, Detroit-based computer maker, is selling the bulk of its Memorex computer peripheral operations for \$500m to an investor group which includes several senior Memorex executives. Page 25

WICKES, US building products and retail group, said it had agreed to acquire Collins & Aikman, major producer of textile products, for \$1.16bn in a cash merger. Page 25

AMSTRAD's next generation of personal computers is likely to be even cheaper than that recently launched through savings on key components. Page 9

EUROPEAN Monetary System: The Danish krone and the Belgian franc remained close together as the two weakest members of the system last week. However, there was no



downward pressure and both currencies started to recover slowly against the D-Mark. This was possible because of the D-Mark's failure to regain recent losses against the US-dollar. A stronger D-Mark usually places strain on the weaker members as funds are switched into the German currency to a greater extent than into other EMS currencies.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the DM) may move more than 2% per cent. The lower chart gives each currency's divergence from its 'central rate' against the European Currency Unit (ECU), itself a basket of European currencies.

UNCTAD, United Nations Conference on Trade and Development, is proposing a coordinated international effort to solve the crisis in world shipping. Page 24

ALEXANDER and Alexander, world's second largest insurance broker, yesterday reported a third quarter loss of \$600,000 after taking a \$18.5m charge from discontinued operations. Page 25

POWER of Canada, holding company of Montreal financier Mr Paul Desmarais, and its financial services arm have reported higher earnings of C\$97.5m (\$75.3m) for the third quarter. Page 28

GTE, US telecommunications and electrical equipment group, took action to thwart a possible unfriendly takeover bid by announcing a buy-back of up to 10m shares. Page 28

VIRGIN GROUP plans to become the leading UK-based international media and entertainment group, the prospectus for its offer-for-sale, published today, says.

DUTA, publicly listed property company controlled by Datuk Yap Yung Song, a Malaysian businessman, has been placed under receivership. Page 25

DAVY, UK engineering contractor, is to build a \$200m chemical plant in the US for Standard Oil. Page 10

Netherlands on the alert as Rhine pollution spreads

BY DAVID MARSH IN BONN AND LAURA RAUIN IN AMSTERDAM

WEST GERMANY yesterday stepped up its calls for damages from Switzerland as a wave of pollution caused by last weekend's fire at the Sandoz chemical company in Basle spread down the Rhine.

Meanwhile, the Netherlands moved swiftly yesterday to counter the effects of the toxic chemicals being washed down one of Western Europe's greatest rivers.

The accident, which has killed several hundreds of thousands of fish and eels in the Rhine and prompted emergency procedures to safeguard municipal water supplies, is emerging as one of Europe's most serious environmental disasters of recent years.

It seems likely to increase further general concern over international control of environmental damage. This has already become a significant issue in European public opinion following the Chernobyl nuclear reactor disaster in the Soviet Union.

The question of compensation for damage caused by poisonous waste in the Rhine is being discussed between the West German Government and the Rhine-side states which have responsibility for environmental issues. The states of Rhineland Palatinate, Baden-Württemberg and Hesse, however, made clear at the weekend their intention to resist for damages.

West Germany's opposition Social Democratic Party (SPD) yesterday criticised Mr Walter Wallmann, the Minister for Environment and Reactor Safety, for what it claimed was his failure to inform the public of the full consequences.

Mr Wallmann has called a meeting today of the Rhine protection commission, grouping federal and state representatives, for today to discuss the economic and environmental costs of the accident.

The Federal Government has already accused Switzerland of fail-

ing to alert neighbouring countries to the extent of damage caused by the November 1 fire. The "second wave" of pollution travelling down river yesterday consisted of a 70km stream containing several thousand litres of mercury wastes leaked into the river at the Sandoz works at the end of last week.

An internal report of the Association of German Chemical Industries

Continued on Page 24

EEC set to agree arms sales ban against Syrians

BY QUENTIN PEEL IN BRUSSELS

AT LEAST 11 of the 12 member states of the EEC are set today to agree on a four-part package of actions against Syria, including a ban on arms sales, in support of Britain's decision to break off diplomatic relations last month.

The measures are expected to be approved by the Community foreign ministers meeting in London, following their failure to agree on any concerted action at their last meeting in Luxembourg and subsequent high-level negotiations among senior officials last week in Vienna.

The single member state still holding out against the package, and indeed any measures to isolate Syria, is Greece. But British officials are hoping to persuade Athens to agree. However, the measures seem certain to be taken by the 11, regardless of the Greek attitude.

direct response to British evidence of Syrian involvement in the attempted bombing of an Israeli El Al airliner at Heathrow airport last April, a crime for which Jordanian Nezar Hindawi was sentenced last month to 45 years imprisonment.

Details of the implementation of the four measures have to be finalised at today's meeting. They still fall short of the full range proposed by Sir Geoffrey Howe, the British Foreign Secretary, at the Luxembourg meeting.

They include a ban on arms sales; ending high-level visits between EEC countries and Syria; tighter restrictions on activities of Syrian embassies in the Community - as yet unspecified; and tighter security and surveillance of Syrian Arab Airlines.

In addition to those measures, the British Government has promised to veto any renewal of the current EEC financial aid for Syria, which expires at the end of the month.

A successful agreement on the package at today's meeting should repair some of the damage done by Sir Geoffrey's abortive effort in Luxembourg where he was accused by other member states of trying to rush them into action without adequate preparation.

The ministers did agree on that occasion on a statement expressing understanding and support for the British action in severing its diplomatic relations with Damascus - except for Greece, which rejected the evidence of Syrian involvement in the Hindawi case.

Mr Helmut Kohl, the West German Chancellor, and Mr Jacques Chirac, the French Prime Minister, yesterday held out the possibility that EEC foreign ministers' meeting today would decide a joint line in intensive action against Syria over international terrorism.

After a lunchtime meeting at Mr Kohl's home near Lindgarden on the Rhine, Mr Kohl said the foreign minister's session was likely to find a "sensible solution" to back up Britain in the diplomatic crisis over Damascus.

Mr Chirac said he believed EEC solidarity over the affair should be "possible" at today's gathering.

The measures against Syria are a

Lawson ready to back pound with rates rise

BY PETER RIDDELL AND JANET BUSH IN LONDON

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, does not want to see sterling going any lower and would be prepared to raise interest rates again if there is renewed pressure against the pound.

Mr Lawson sought during a television interview yesterday to dampen election speculation and reassure financial markets about the Government's fiscal and monetary prudence in the wake of the large increases in public spending announced on Thursday.

After arguing that the foreign exchange markets had already taken into account the forecast current account deficit next year, Mr Lawson claimed that sterling might come under pressure for political reasons with fears of the impact of a Labour Government. "That is something which I have to consider with it may require interest rates to rise and if so, so be it. If there is pressure on sterling, then that is how we have responded in the past and that is how we would have to respond in the future."

fourth recent poll putting the Tories in the lead.

The Chancellor said he was certain there was "no quick dash to the country in mind." He later added "I am quite content to go the whole way until 1988 and indeed it would have the advantage of giving me an extra budget in this parliament."

The same themes will be reinforced this evening by the Prime Minister in her annual address to the Lord Mayor's Banquet in the City of London. Much of the speech which Mrs Thatcher was drafting yesterday, will be about the economy and she is also expected, either directly or indirectly, to dampen election speculation.

Mrs Thatcher has made it known that she wants to serve at least four years from her 1985 victory before seeking re-election. This means an earliest possible date of mid-June and most senior ministers still favour autumn next year.

However, many City commentators, opposition leaders, and Conservative MPs believe that the economic risks of delay will result in an earlier election.

Mr Lawson also attacked criticism that monetary policy had become too loose. He said there was an inconsistency between saying "there is too much credit, too much money sloshing around the economy - I don't think there is - and saying at the same time that interest rates are too high."

Apart from continued reaction to the autumn economic statement the other main political interest this week will be in the Queen's Speech on Wednesday outlining the Government's legislative programme and the Knowlesy North local election on Thursday, which Labour is expected to win by a comfortable margin.

Editorial Comment, Page 22

White House under fire over weapons for Iran

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

THE WHITE HOUSE was subjected to a barrage of criticism yesterday over its handling of reports that it had sought the release of US hostages held in Lebanon by supplying military equipment to Iran.

Despite charges from the political opposition that the credibility of US foreign policy was being undermined, the White House still declined to comment beyond earlier statements that disclosures put at risk efforts to free the hostages.

Mr Regan said: "I have never seen them angry over what we are doing for the hostages. I simply do not believe those stories but I will leave it to them to answer any direct question you might have."

So far, however, its refusal to disclose details of its efforts to secure the release of American hostages is merely fueling speculation about covert US activities.

Senator Robert Byrd, expected to be elected majority leader of the upper house in succession to Republican Senator Robert Dole, described the Administration's policy on the release of the hostages as "a major blunder."

He maintained yesterday that the policy undermined the credibility of US foreign policy at home and abroad. Senator Dole has also been critical of making any "payoffs for hostages" but he indicated that he did not know whether the present reports involving Iran were true.

Dr Henry Kissinger, a former US Secretary of State, argued yesterday that providing arms to Iran in return for its help in releasing hostages merely made it more likely that more hostages would be taken.

It is argued that it is not in US strategic interests for Iran to win its war with Iraq but that an American decision to supply arms or spare parts to Iran could have this effect depending on the scale of activity.

Amid authoritative reports that Mr George Shultz, the US Secretary of State, might consider the issue as one of possible resignation, the White House stance was threatening to become a major confrontation on the direction of foreign policy between the White House and the newly elected Democratic majority in the Senate.

Senator Patrick Leahy, the Democrat who is vice-chairman of the Senate intelligence committee, was reported yesterday as saying: "There is nothing wrong with secret diplomacy, but if you are doing it as a way to get around specific laws, there is something wrong. The basic question is whether they are using the National Security Council to get around American law."

Asked about reports that Mr Shultz and Mr Caspar Weinberger, the US Defence Secretary, were furious about the White House-led efforts to gain the hostages' release, Mr Regan said: "I have never seen them angry over what we are doing for the hostages. I simply do not believe those stories but I will leave it to them to answer any direct question you might have."

Senator Richard Lugar, chairman of the Senate foreign relations committee, avoided direct criticism of the White House but said he believed that Mr Shultz ought to be involved in the formulation of American foreign policy.

The White House decision to stonewall in the face of questions on its alleged dealing with Iran is

Lifting the veil on covert action, Page 3

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OVERSEAS NEWS

Neue Heimat faces fresh crisis

BY ANDREW FISHER IN FRANKFURT

OPINION IS hardening among West German banks that the floundering Neue Heimat housing group sold by trade unions to a Berlin bakery owner for a nominal DM 1, cannot be kept going for much longer in its present form.

A meeting of the 15 main creditor banks today could help decide its fate, though most appear keen that any solution should stop short of bankruptcy. Neue Heimat owes German and foreign banks and other creditors about DM 17.6bn (€3.7bn).

Bankruptcy would lead to forced sales of homes and push down property prices. Instead, some banks are arguing for an orderly winding up under German liquidation, or Vergleich

(composition), proceedings. These buy time by holding off creditors and permitting the gradual sale of assets.

Mr Horst Schiesser, the Berlin businessman who bought the scandal and debt-ridden group, has tried to persuade banks to give him time to turn it round. He won some breathing space last month with an agreement by the main banks to continue a moratorium on debt repayments, already agreed with the previous owners, until the end of the year.

But some banks have called in their loans and a turnaround of Neue Heimat is likely to require an extension of this agreement.

Further discussions among the banks, which have set up

a special working group to keep all 150 creditor banks and financial institutions informed, have brought a growing conviction that Neue Heimat cannot be saved.

Although the unions hoped to rid themselves of an embarrassing problem, the sale concentrated public attention on the company's murky past and lax management. Mr Schiesser's own business affairs and associates have also come under increasingly critical scrutiny.

The standing of the unions has been most tarnished by the affair. The future of Mr Ernst Breit, head of the German trade union federation (DGB), has been called into question, as has that of Mr Alfons Lappas, who was imprisoned

briefly for refusing to talk to a parliamentary commission about Neue Heimat.

The union movement has agreed to sell Bank für Gemeinwirtschaft, the fifth biggest German non-state bank, to the sachsen-und-thüringener insurance company, because of the financial impact of Neue Heimat's problems.

Mr Lappas is expected to step down shortly as head of BGAG, which owned Neue Heimat on the unions' behalf.

Whatever happens to the housing group and whether or not banks agree to extend the debt moratorium beyond 1986, the post-war concept of Gemeinwirtschaft, or capitalism with socialist favour, has been shattered.

Transport ministers in search for compromise on air fares

BY TIM DICKSON IN BRUSSELS

THE British Government's aim to force down European air fares through greater competition among airlines hinges on a crucial meeting of EEC transport ministers starting in Brussels today.

Britain claims that consumers would begin to feel the benefits next year if member states could agree on its new compromise proposals for more liberalisation.

Mr John Moore, Britain's Transport Secretary and chairman of the Transport Council, however, faces an uphill struggle since several countries are clearly reluctant to approve Britain's moderately reformist package. Much will depend on France and Germany, for example, whose limited enthusiasm appears to have been waning in recent weeks.

Even if ministers can adopt a common approach their actions are bound to be fiercely criticised by consumer groups and treated with at least a degree of scepticism by the European Commission. Following a firm prod from the European Court of Justice in April, it was the commission which initiated much more radical proposals in the summer.

Britain says these proposals had to be watered down in the interests of finding a consensus but that they still represent a worthwhile "first step." The Bureau of European Consumer Unions does not share this

optimism, claiming that the public has been "badly misled," and said last week that no agreement was better than the one now on the table.

Moves towards liberalising airline regulations — a system described last week by the EEC's Competition Commissioner Mr Peter Sutherland as "uniquely anti-competitive" — have focused on three major areas: air fares, capacity sharing and market access.

There are many views on the conditions under which airlines can be discount and deep discount fares without needing authorisation from governments. The proposal tabled by Britain today is that a discount fare could go as low as 65 per cent

of the normal economy fare, and a deep discount fare to 45 per cent of the normal fare.

As for capacity sharing, there is general agreement that the share of seats on a particular route could move to a 45/55 split in the first two years, but Britain's idea of 60/40 in the third year is likely to prove divisive.

The French and the Germans among others may argue for a slower pace of reform while the enthusiastically liberal Dutch and Irish want to abandon seat-sharing arrangements altogether.

On market access Britain wants to end the old idea that EEC routes should be restricted to one carrier per country.

Comecon party leaders arrive in Moscow

PARTY LEADERS from the 10-nation Communist trade group Comecon arrived in Moscow yesterday for a working meeting, the Soviet news agency TASS reported. Russian writers from Moscow.

The brief statement was the first official Soviet confirmation that the meeting was taking place. The party leaders have met very infrequently on Comecon business.

East European sources here said on Friday that a two-day meeting of Moscow's allies would open today, partly to review the international situation since Mr Mikhail Gorbachev, the Soviet leader, met in Iceland last month with President Ronald Reagan of the US.



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Guerrillas' threat hangs over Peru poll

By Barbara Durr in Lima

PERUVIANS go to the polls today to elect between 2,000 provincial and district mayors for the next three years.

The ruling party, Apra (American Popular Revolutionary Alliance), will be testing whether President Alan Garcia's popularity can make it the undisputed leading political force.

Soldiers will ring 45,000 polling booths because of threats by radical Maoist Sendero Luminoso (Shining Path) rebels to disrupt the poll.

Mr Borronette, Peru's first Marxist mayor, is fighting a tough battle for re-election. Not only has Apra mounted a vigorous campaign in Lima, but the rightwing Popular Christian Party has stood its national leader, Mr Luis Bedoya Reyes, as candidate.

The three-way race in metropolitan Lima, where one-third of the country's population is concentrated, is considered to be a guide to the country's political direction.

A victory for Mr Bedoya would provide the biggest upset. Both Apra and UL had believed the right's political future evaporated with its crushing defeat in the 1985 presidential election.

Mr Borronette, to the ire of his extreme left colleagues, has led a mid-mannered opposition and became a friend of the president.

Apra's candidate in Lima, Mr Jorge del Castillo, is a relative peace and his slight personality. A victory for him would be a triumph for Apra's political machine and a testimony on how long Mr Garcia's electoral coat falls are.

Apra, a nationalistic hybrid of socialism, is expected to poll the most votes in Peru's 26 departments. It has stood more candidates than any other party, but its margins are predicted to be narrowed by the United Left.

Lifting the veil on covert action

Lionel Barber in Washington on the Reagan Administration's liking for undercover operations

BEHIND the bizarre mission of President Ronald Reagan's former National Security Adviser Mr Robert McFarlane to Iran lies a running theme in the US's foreign policy: the love of undercover operations.

For all the half-denials in Washington, there is little doubt that the McFarlane mission fits into a pattern of covert operations set up soon after President Reagan took office in 1981.

It takes its inspiration largely, but not solely, from what has become known as the "Reagan doctrine". US military and financial support for anti-Communist rebels in countries such as Angola, Afghanistan and Nicaragua.

The Reagan Administration's activities have largely escaped public scrutiny through Congress, thanks to the Republican-controlled Senate's unwillingness to delve too deeply. That is likely to change now that the Democrats are back in control following their victory last week in the mid-term elections.

Full details of the reported arms shipments to Iran in return for Tehran helping to secure the release of American hostages held in Lebanon have yet to emerge. Yet it is possible to draw some parallels between the Iranian operation and the effort to provide secret military advice and arms to the Contra rebels fighting the leftist Sandinista Government in Nicaragua.

The link begins with two men who figure largely in both operations: Mr McFarlane, a former Marine, who resigned last December as President Reagan's National Security adviser, and Lt Col Oliver North, a serving Marine and close friend of Mr McFarlane who is currently a senior member of the National Security staff in the White House.

It was Mr McFarlane who in early 1984 secured President Reagan's approval for a "private aid network" to help the Contra rebels, a proposal developed by Lt Col North in order to evade a ban on US aid imposed by Congress.

The ban followed the disclosure that the US Central Intelligence Agency (CIA) had directed the mining of Nicaragua's harbours and then told the Contras to claim public credit for the operations.

Congress, through its oversight committees, learnt of these covert operations only belatedly and the ensuing controversy led directly to the cut-off of CIA aid.

This was a severe blow to the Reagan Administration. The Contras, described by the President as "freedom fighters", faced a losing battle against the better-trained and better-equipped Sandinista troops (helped by supplies from the Soviet Union).

The private aid network grew out of the desire to skirt the legal restrictions on US aid to the Contras. Lt Col North, working with other US officials in the Pentagon and State Department, made contact through intermediaries with a string of former CIA employees.

A retired army Major General John K. Singlaub, whose intelligence experience dates back to the Second World War, was recruited to organise fund-raising and provide military advice.

According to Mr Robert Parry, an Associated Press reporter who has followed the Contras aid programme with a classic covert operation "with deniability built in for the White House at every level."

The crash of an arms-laden transport aircraft in southern Nicaragua last month exposed the operation. The sole survivor, Mr Eugene Hasenfus, was captured by the Sandinistas and put on trial, having made and then retracted claims that he was working for the CIA.

Mr McFarlane has claimed that the spirit and letter of the Congressional ban on Contra aid was observed by the Administration but the leak of Lt Col North's involvement in the summer of 1985 suggested that some US officials had their doubts.

These doubts are already surfacing in the other covert operation in which Lt Col North and Mr McFarlane now appear to have figured: the arms-for-hostages deal between the US and Iran.

The key difference between the Nicaraguan effort and the Iran operation is that the latter was essentially a White House affair, co-ordinated through the National Security Council. High-ranking State Department officials do not appear to have been informed and the US Secretary of State, Mr George Shultz, and the US Defence Secretary, Mr Caspar Weinberger had severe doubts.

The problem centred on what was publicly declared US Government policy: no hostage deals with terrorists or governments which sponsor terrorism, and no arms supplies to Iran.

The US has pledged neutrality in the Iran-Iraq war and has imposed an arms embargo against Iran since 1979, following the takeover of the US Embassy and its diplomats as hostages in Tehran by Moslem extremists.

Against this was set the desire to secure the release of at least seven American hostages in Lebanon. In the longer term, it was argued that the US should promote ties with Iranian military and political leaders jockeying for power under the ageing leader, Ayatollah Khomeini.

Conventional diplomacy, through the State Department, was cast aside and replaced by covert operations, co-ordinated by the White House.

This should not be seen as a purely Reagan phenomenon. Other US leaders, such as President Richard Nixon used the National Security Council as a way of side-stepping the rest of the US bureaucracy and avoiding leaks.

Consumer groups and the parliamentary opposition have vowed to fight the proposals, arguing that they will lead to higher medicine prices. To meet these objections, the Government proposes to set up a prices review board to ensure they do not rise faster than the inflation rate.



George Schultz harboured grave doubts

Kennedy in Senate challenge to Reagan on 'neglect of needy'

BY STEWART FLEMING, US EDITOR IN WASHINGTON

SENATOR Edward Kennedy, the 54-year-old liberal Democrat from Massachusetts, has announced that he will take over the chairmanship of the Senate labour and human resources committee, and has promised to challenge the Reagan Administration's "shameful recent trend of neglect for the needy."

Senator Kennedy's decision clears the way for prospective Democratic presidential candidate Senator Joseph Biden to become chairman of the judiciary committee. Senator Biden, who is also seen as leaning to the liberal wing of the party, will make it more difficult for President Reagan to appoint ideological conservatives to the Federal Courts since such appointments must be processed through the judiciary committee and approved by the full Senate.

As a result of last week's victory in the mid-term elections, the Democratic Party now has a 55-45 majority in the US Senate, giving it the right to appoint Democrats as chairmen of committees which oversee legislative proposals, hold hearings into administration policy and are the first stage in the process of approving many appointments by the executive branch of government, including the appointment of Federal Reserve board governors.

Political analysts observe that of the 17 key senate committees, nine seem likely to be chaired by senators from the right wing of the party.

Senators from the south of the US such as Senator Sam Nunn of Georgia and Senator Lloyd Bentsen of Texas in particular are expected to have a far-reaching impact on the policy agenda which Senate Democrats will be drawing up.

The conservative influence of southern Democrats could, it is argued, move the party more towards the centre on many issues.

Senator Kennedy and Senator Biden, however, will be able to speak out strongly on behalf of organised labour and minorities, traditional core groups in the Democratic Party coalition.

Democrats are also emphasising the importance of education in improving the competitiveness of American industry. Senator Kennedy, announcing his decision in Boston over the weekend, stressed the importance he attaches to education.

Canada reforms medicines law

BY BERNARD SIMON IN TORONTO

CANADA IS to introduce legislation modifying a controversial system of compulsory licensing of brand-name medicines after a compromise between multinational pharmaceutical companies and generic drug makers.

In terms of draft amendments to the Patent Act, brand-name manufacturers will have seven years of patent protection before having their medicines copied by the generic companies.

The time will be extended to 10 years if the generic manufacturers import the fine chemical ingredients for products.

The licensing system, designed to hold down domestic medicine prices, has been an important irritant in Canada's commercial relations with the US and EEC since it was introduced in 1969.

Multinational drug companies have complained that it provides inadequate patent protection, discourages research and has enabled generic manufacturers to compete unfairly in export markets.

Patent protection on pharmaceuticals has been as short as three or four years, compared with the 17 years provided on other products.

In return for greater protection, the brand-name producers have promised to increase research and development spending from 4.9 per cent of sales to 10 per cent over the next 10 years. Three companies, Upjohn, Ortho and Parke-Davis, last Friday announced investment projects totalling C\$100m (£50.5m).

Advertisement for The Wall Street Journal/Europe. Text: 'No Photographs, Yet Still The Most Detailed Daily Picture of World Financial Markets.' Includes a table of World Economic Indicators and a section on Dollar's Fall Aids Multinationals.

Table: World Economic Indicators. Columns: Foreign Exchange Reserves (\$m), Sept '86, Aug '86, July '86, Sept '85. Rows: US, UK, West Germany, Italy, Japan, Netherlands, Belgium, France.

Advertisement for British-Borneo Petroleum Syndicate, P.L.C. Text: 'INTERIM REPORT FOR THE HALF YEAR TO 30th SEPTEMBER 1986'. Includes financial data and company information.

OVERSEAS NEWS

Pricing committee of Opec to meet

By Roger Matthews
THE PRICING committee of the Organisation of Oil Exporting Countries is to meet in Ecuador before the end of this week, it was announced in Kuwait yesterday.

The main task for the committee, comprised of Kuwait, Ecuador and Libya, will be to consider a strategy for returning to a fixed market price. Mr. Hisham Nazer, the new Saudi Oil Minister, said after the sacking of Sheikh Ahmed Zaki Yamani at the end of last month that the target should be \$18 a barrel.

Opec set up the three-member pricing committee during its 17-day meeting in October. Under its terms of reference any other Opec member can sit in on its meeting.

There was speculation last week during the summit meeting of the Gulf Co-operation Council that the pricing committee could turn into a full ministerial conference.

However, Saudi Arabia is anxious for the fullest consultation between members before going into a full conference, which is currently scheduled to convene in Geneva on December 11.

Iraq launched two attacks on Iranian vessels shuttling oil from its main terminal at Kharg Island yesterday.

India in surprise sloop on Tamils

BY K. K. SHARMA IN NEW DELHI AND MERVYN DE SILVA IN COLOMBO

POLICE IN the southern Indian state of Tamil Nadu made a surprise sloop at the weekend on Sri Lankan Tamil militants who have taken refuge there. About 1,000 were arrested and thousands disarmed.

Among the arms seized were rocket launchers, machine guns, automatic rifles and an unspecified quantity of ammunition. Among those arrested were leaders of the groups who for more than three years have organised operations in northern Sri Lanka from Tamil Nadu.

The leaders were detained for up to eight hours before being released after police took an inventory of their weapons and belongings and raided their offices.

The crackdown was seen in Colombo as a signal by Delhi in advance of the second South Asian summit, opening next week in Bangalore, where cross-border terrorism is expected to be high on the agenda and where negotiations between Mr Rajiv Gandhi, the Indian leader, and Mr J. P. Jayewardene, the Sri Lankan president, are to take place.

Police warned the guerrilla leaders they should refrain from terrorist activities on Indian soil. Observers believe that the security forces may have been referring to the killing of a Tamil Nadu social worker in Madras last week by members of a Sri Lankan guerrilla group.

Reports from Madras, where the Tamil groups are based, say the state government informed central government of plans for the crackdown but said the operation was ordered by New Delhi. This is not widely believed.

Sri Lanka Tamil militants and refugees in Tamil Nadu have conducted their operations with at least the tacit consent of the Indian Government and have been given refugee status by it.

Many believe that militants' training camps in Tamil Nadu have been approved by the authorities. The crackdown was a surprise because of India's sympathies for the Tamil struggle for independence.

Mr Jayewardene's latest proposals for a settlement to the ethnic strife were rejected last week by the Tamil militants on the ground that they did not go far enough to satisfy their demands for autonomy for the northern and eastern provinces of Sri Lanka.

The proposals are thought to have been commended to the militant groups by the Indian Government, which is acting as a mediator. The crackdown could mean that the Indians intend to put pressure on the militants to reach a settlement.

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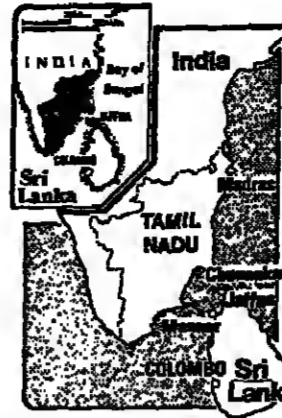
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Unctad urges united action to curb excess shipbuilding

BY WILLIAM DULLFORCE IN GENEVA

SUBSIDISED excess shipbuilding capacity is probably the major obstacle to restoring the balance between supply and demand and solving the crisis in world shipping, the secretary of the United Nations Conference on Development and Trade (Unctad) states in a report which will be submitted today to the organisation's shipping committee.

The Organisation for Economic Co-operation and Development (OECD) estimated that 850,000 gross tonnage of new ships were built in 1983, roughly double the 450,000 gross tonnage of new ships built in 1980. This would indicate a general worldwide subsidy level of about 25 per cent compared with the value of new ships delivered in the same year, roughly estimated at some \$20bn, Unctad comments.

The high level of subsidisation has exerted a strong downward pressure on prices for new ships and stimulated speculative investment in the shipbuilding industry. New building prices for a 250,000 dwt tanker tumbled from \$70m in 1980 to \$47m in 1985.

Accelerated scrapping of obsolete ships is one course advocated. Between 1978 and 1985 a total of 220 ships amounting to 9.5m grt (gross registered tons) were scrapped. Unctad believes the contribution of accelerated scrapping schemes should not be overestimated but suggests governments could increase their financial aid to develop countries for the establishment of scrapping yards.

A recent shipping development analysed critically in the Unctad report is the build-up of round-the-world container shipping services since 1984. These are provided by vessels which circumnavigate the globe on fixed liner schedules.

Four big shipping operators - ABC Container Line, Barber Blue Sea Line, United States Line and Evergreen - offer these services, while three other lines offer integrated end-to-end linking voyages at common transshipment points.

Market concentration has been increased and the lack of equilibrium between supply and demand on many containerised liner routes has been accentuated, Unctad says.

Israel admits holding 'missing' nuclear technician

BY ANDREW WHITLEY IN JERUSALEM

THE Israeli Government yesterday publicly admitted that it was holding Mr Mordechai Vanunu, the nuclear technician who disappeared in London six weeks ago after leaking the country's nuclear weapons secrets.

At the same time, the Government denied that he had been kidnapped on British soil. It said there was no basis to a report that Mr Shimon Peres, the former Labour Prime Minister, had contacted Mrs Margaret Thatcher, "to inform her about something that never took place."

An official statement, issued after yesterday's regular Cabinet meeting, said Mr Vanunu was "under legal detention," following a court order issued after a hearing at which he had had legal representation.

No further details would be published as the case was sub judice, the statement said. However, a police spokesman yesterday denied that the 31-year-old Israeli was being held in a police facility. Mr Vanunu is believed to have been originally picked up abroad by Israel's intelligence services.

Mr Vanunu's voice was yesterday heard - albeit indirectly - for the first time since his disappearance. Speaking on the army radio, his lawyer, Mr Amnon Zichroni, said his client protested against the public "lynching" to which he had been subjected by the Israeli press in recent days.

Mr Zichroni, a prominent left-winger, said his client was well but said he was unable to comment on the investigation because of security restrictions.

Brief though it was, the belated official admission that the former technician from the Dimona nuclear research centre is under arrest in Israel carries far-reaching implications which go well beyond the particular circumstances of Mr Vanunu's mysterious re-appearance in Israel.

It tacitly acknowledges the veracity of his claims to a British newspaper that over the past 20 years Israel has secretly developed a nuclear weapons capability.

There has never been a public debate in Israel over the possession or use of nuclear weapons, even though it has long been widely believed both within Israel and abroad that the Jewish state had become the world's sixth nuclear power.

Israelis have traditionally comforted themselves with the belief that - if the worst came to the worst - the "bomb in the basement" indeed existed. Mr Amos Rublin, the Prime Minister's economic adviser, for example, is well known as advocating that Israel should base its defence policies on a public acknowledgement of its nuclear might.

Israel surplus tonnage was estimated last year at 161.8m dwt (deadweight tonnes) or 24.3 per cent of the world merchant fleet. In tankers alone, the surplus amounted to 102.7m dwt or 37.1 per cent of the world tanker fleet. In the dry bulk sector the surplus is put at 51.5m dwt or 23.1 per cent of the total.

The situation has improved since 1983 when the surplus tonnage in the merchant fleet was estimated to be 28.5 per cent. But Unctad is less optimistic about the chances of the tonnage needed coinciding with the actual size of the fleet over the next decade than the Japan Maritime Research Institute and the Association of West European Shipbuilders have been in their latest forecasts.

Interest in very large crude carriers was said to be picking up, though with little immediate impact on rates in the low Worldscale 20s, and there was more demand for tankers of around 130,000 tons deadweight, for which rates remained around \$7.5 to \$8, depending on the discharge area.

Brokers said there was little business available in West Africa, where it was assumed the Nigerian Government was diligently observing the production quota set by the Organisation of Petroleum Exporting Countries.

A few cargoes were also reported to be available from Mexico, but rates were said to be varying from Worldscale 20 to 25 for UK discharge. Better levels were available for owners trading around the European coast, where Galbraith's, the London brokers, said a shortage of tonnage had enabled an owner to achieve Worldscale 100 for a 67,000 tons cargo of crude oil from Sullom Voe.

The trend remained weak in the dry cargo markets, but rates for Panamax ships (the largest able to transit the Panama Canal) remained steady at around \$7-\$7.25 for trips from the US Gulf to Europe, and around \$12.25 for US/Japan cargoes.

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SHIPPING REPORT

Tanker rates steady as dealers await oil moves

BY KEVIN BROWN

RATES REMAINED steady for tankers loading in the Gulf last week as owners and charterers continued to await developments in oil prices.

Better levels were available for owners trading around the European coast, where Galbraith's, the London brokers, said a shortage of tonnage had enabled an owner to achieve Worldscale 100 for a 67,000 tons cargo of crude oil from Sullom Voe.

The trend remained weak in the dry cargo markets, but rates for Panamax ships (the largest able to transit the Panama Canal) remained steady at around \$7-\$7.25 for trips from the US Gulf to Europe, and around \$12.25 for US/Japan cargoes.

Mozambique rebels claim rail traffic to Beira halted

BY OUR FOREIGN STAFF

THE Mozambique National Resistance (MNR), the right-wing rebel movement attempting to overthrow the government of President Joaquim Chissano, claimed at the weekend to have sabotaged the railway line from Zimbabwe to the port of Beira in Mozambique at four points.

The so-called Beira Corridor, providing Zimbabwe's shortest rail and road route to the sea as well as carrying a vital oil pipeline, is guarded by several thousand Zimbabwe troops.

An MNR statement issued in Lisbon said that "rail traffic between Beira and Zimbabwe is now completely paralysed." The rebels also claimed to have shelled Zimbabwe's military headquarters in Mozambique at Chimio, killing 25 soldiers.

Last month Mr Robert Mugabe, Zimbabwe's Prime Minister, reaffirmed his country's military support for Mozambique in the war against the MNR.

Mr Afonso Dhlakama, the rebel leader, responded by declaring war on Zimbabwe. Black youths and municipal police fought a gun battle in the troubled black township of Soweto. Reuter reports from Johannesburg.

The Bureau for Information said that blacks fired 10 shots on Saturday at municipal police, who fired back. The sprawling township south of Johannesburg has been tense for several days with at least three people shot dead. General Motors has said that it will keep close to its two strikebound plants near Port Elizabeth, South Africa, because the union has not formally agreed that workers would end a 10-day wildcat strike, AP reports.

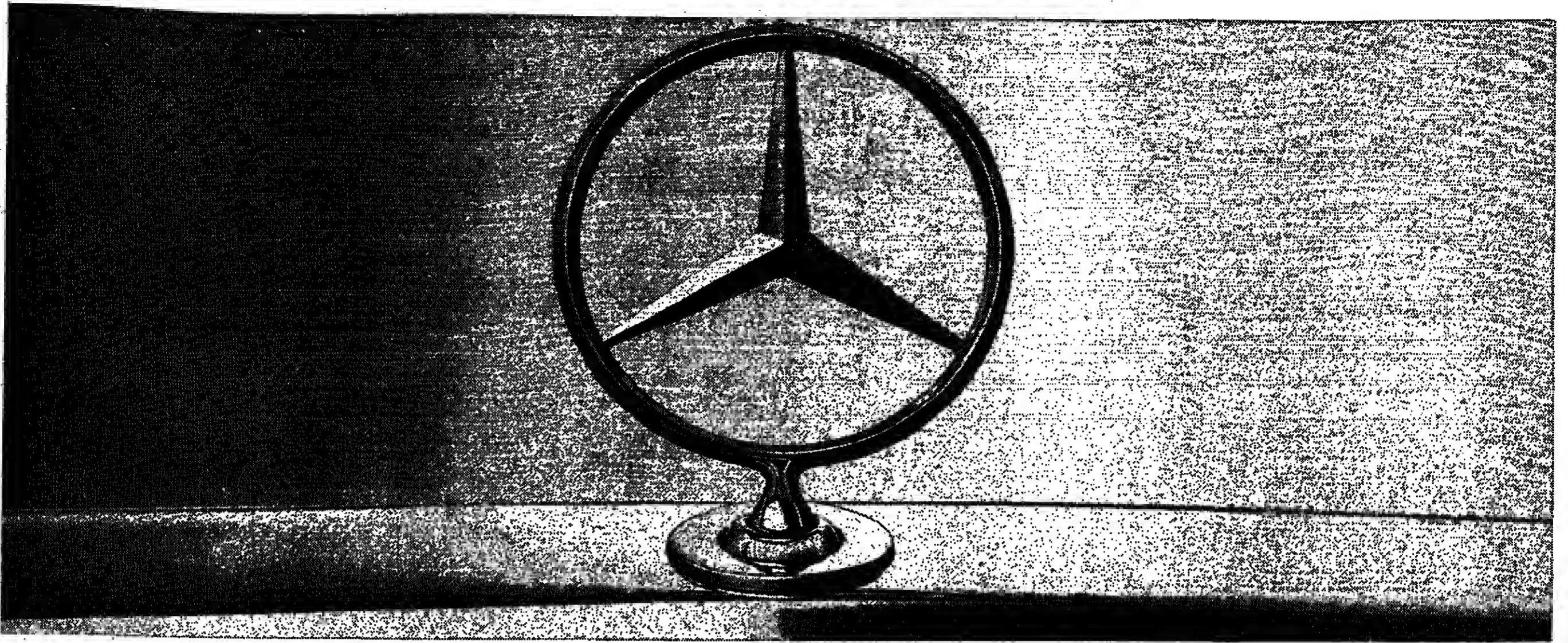
The strike arose from GM's decision to sell its South African operation to local management. About 2,000 of the company's 3,000 workers struck on October 29 for a say in the new management and money guarantees for anyone dismissed because of the sale.

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IS IT REALLY WORTH £3,135?

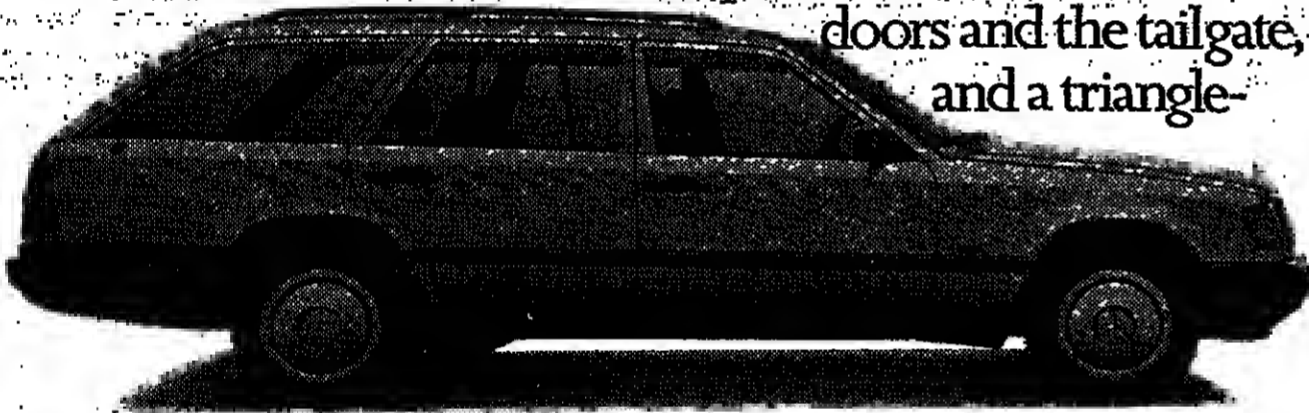
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split dual circuit brake system. The brakes are servo-assisted discs all round, and the car is equipped with rack and pinion power steering.

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OVERSEAS NEWS

Nakasone takes Seoul plea for talks to Peking

BY ROBERT THOMSON IN PEKING

MR YASUHIRO NAKASONE, the Japanese Prime Minister, has acted as a messenger for South Korea during a two-day visit to China...

S Korea to compete in European PC market

By Terry Dodsworth in London

HYUNDAI, the industrial and electronics conglomerate, is set to become the first South Korean company to launch its personal computer in Europe...

Aquino takes her begging bowl to Tokyo

Ian Rodger and Samuel Senoren preview the Philippines' president's visit



Corason Aquino: low-key trip

THE PHILIPPINES' armed forces went on full alert yesterday on the eve of President Corason Aquino's departure for Japan...

units supposedly loyal to Mr Juan Ponce Enrile, the Defence Minister, to start manoeuvres to pressure Mrs Aquino into firing her left-leaning Cabinet members...

The question of Japan's general attitude to Mr Aquino's government, which remains under threat from a Communist insurgency is also a delicate one...

Japanese trade mission to discuss EEC tensions

BY CARLA RAPOPORT IN TOKYO

JAPAN'S senior business leaders arrive in Europe tomorrow for two weeks of talks with heads of governments in an effort to reduce rising trade tension between Japan and Europe...

helm, the Austrian president, and Mr Wilfried Martens, the Belgian prime minister. A second mission to West Germany and Italy is being organised for early next year...

Brussels prepares salutary message for Canberra

MR WILLY DE CLERCQ, the European Commissioner for External Relations and Trade, will this week lead the Community's annual ministerial consultations with the Australian Government...

Chris Sherwell in Sydney looks at the background to EEC trade tensions with Australia

Through their own failings, Australia is thought to have been blind to European economic opportunities staring them in the face...

Australia and the EEC also have important accords regarding European purchases of lamb, mutton and beef and European sales of beef in Pacific countries...

represented only a quarter of normal Soviet purchases from the Community annually, and that Moscow had at that stage bought little over a quarter of its total likely purchases of some 19m tonnes...

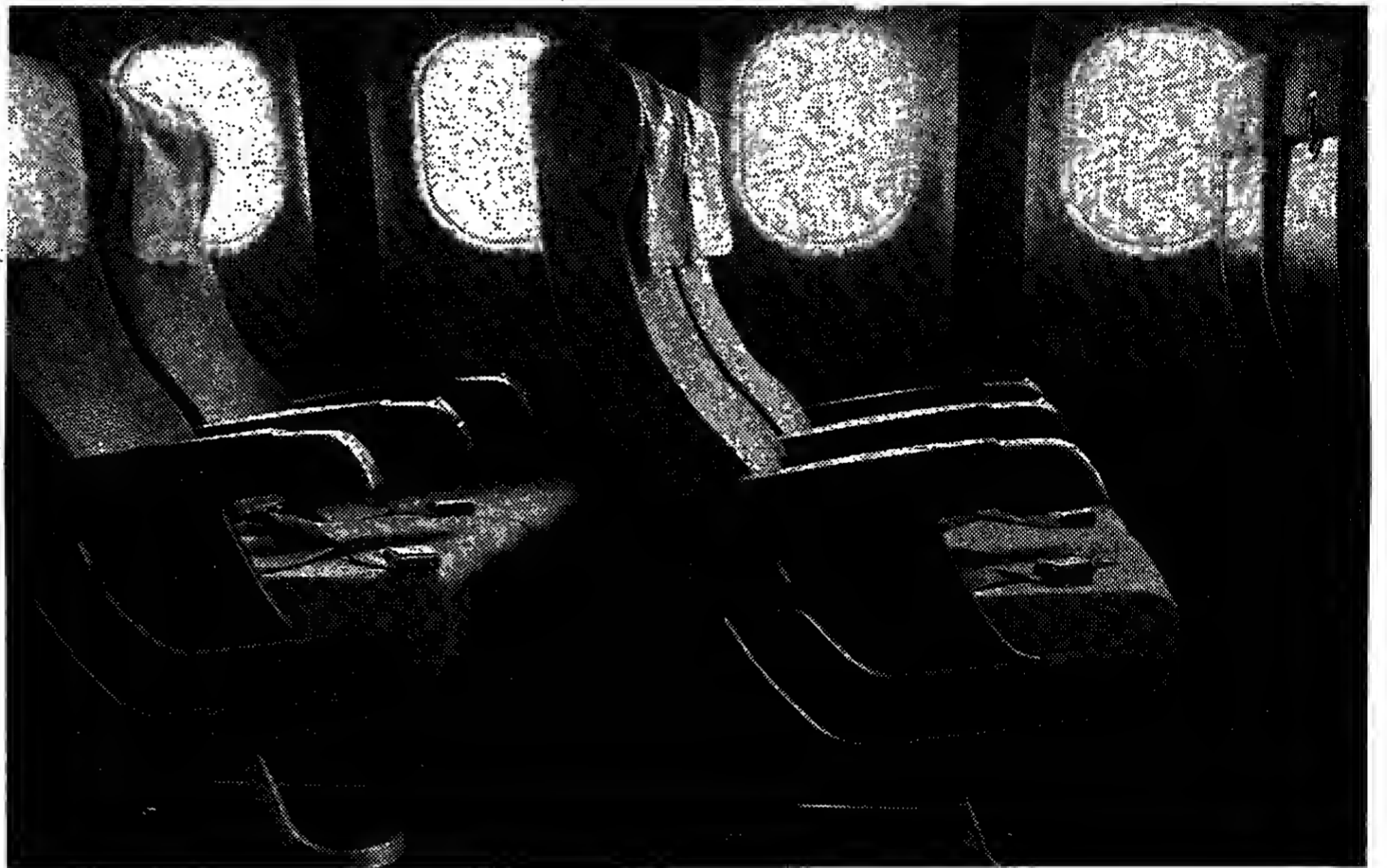
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UK NEWS

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SE ready to reinforce effort over uncleared deals backlog

BY ALAN CAME

STOCK EXCHANGE firms in London will have to wait until tomorrow morning to learn whether their efforts over the weekend to reduce the number of outstanding bargains awaiting clearance after Big Bang two weeks ago have been successful.

With only five working days left before settlement on November 17 when money has to be paid out and share certificates handed over, the exchange's settlements committee is meeting this morning. It will decide what further sanctions to pursue if tomorrow's figures show unsatisfactory progress in reducing the backlog, still standing at more than 50,000 unmatched trade reports, equivalent to some 20,000

bargains worth just under £500,000. Mr Michael Baker, head of the exchange's settlement division, said that accounting and trading staff from every broker/dealer firm had worked on Saturday in an effort to clear the backlog. They had been assisted by about 80 exchange staff and he was optimistic about the results.

No attempt had been made to clear bargains through the settlement computers Charm and Tallisman. The day had been devoted to eliminating manually errors in the outstanding trade reports. Only when these reports were fed into the computer system on Monday night would it become clear if progress had been made.

Every stock market bargain results in two trade reports, one from the buyer, the other from the seller. Only if the two reports match in every significant detail when compared in the Charm computer system is the bargain allowed to go through to final clearance and settlement in Tallisman.

Some confusion was expected after Big Bang. A substantial proportion of the unmatched trade reports are the results of wrong or incomplete preparation. In some reports the firm's settlement codes are wrong; in others, the time stamp has been omitted. Some firms' computer systems have difficulty converting four digit trading codes into three digit settlement codes.

CBI aims to attack Labour policies

By Hazel Duffy

THE LABOUR Party's policies on industrial relations and social ownership will come under strong attack from Mr David Nickson, president of the Confederation of British Industry (CBI), when he opens the confederation's 10th annual conference in Bournemouth today.

At yesterday's launch of the CBI's business manifesto, Mr Nickson said he did not disagree with Sir Terence Beckett, CBI Director General, who said last week that Labour policies would mean a return to "the mayhem of the 1970s."

The CBI was against any extension of public ownership and wanted a continuation of the "step by step" reforms in industrial relations law, although more time was needed to absorb them.

The employers' leaders showed a marked reluctance to be drawn into any policy statements on other issues which could be construed as criticism of the Government in a pre-election period.

On the timing of Britain's entry into the exchange rate mechanism of the European monetary system, for which the CBI has been calling for the past 18 months, Mr Nickson said only that he preferred it should be "sooner rather than later."

Delegates will be discussing a resolution later today, however, which calls on the Government to negotiate membership without further delay.

A cautious welcome was given to the Chancellor of the Exchequer's autumn statement, pending further study by the CBI, on the grounds that the public spending increases was contained within the Treasury's medium-term financial strategy.

Obstacles likely to rule out creation of fibre optic grid

BY RAYMOND SNOODY

ONE OF the central long-term recommendations of the Peacock Committee into the future of broadcasting, the creation in Britain of a national fibre optic grid, is unlikely to be implemented.

The concept of a grid offering almost limitless capacity to distribute television channels has run into severe obstacles and a barrage of criticism.

The Peacock Committee wanted the grid because of what it saw as the slow growth of cable television networks and the opportunities it would offer consumers for buying individual programmes as they now do books or magazines.

The idea is still being studied by a government committee and has not been formally rejected, but it is now expected to be ruled out for the foreseeable future because of the practical difficulties involved.

The Peacock Committee recommendation envisaged national telecommunications organisations such as British Telecom being able to act as common carriers for the provision of a full range of services, including television programmes on such a network.

Government keeps its election options open

BY PETER RIDDELL, POLITICAL CORRESPONDENT

THE SPEECH by the Queen in the House of Commons on Wednesday, which will outline the Government's legislative programme for the coming parliamentary session, will be one of the least contentious in recent years. The government is attempting to be as flexible as possible over the choice of a date for a general election.

The Cabinet's intention is that the whole programme will be completed by next July, allowing scope for a late summer or early autumn election. Normally, as this year, both the Lords and House of Commons sit for a few weeks in the autumn to complete business.

To achieve this and a number of controversial measures such as water privatisation and English and Welsh property tax reforms have been held over. Nevertheless, there will still be about 30 bills, of which the largest will concern criminal justice, covering a wide range of aspects including sentencing, court procedure and fraud.

Sea document transfer system threatened by shortage of funds

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

A SYSTEM for the electronic transfer of shipping documents, developed by a subsidiary of Chase Manhattan Holdings, is facing closure because of lack of funds. This is despite a successful trial in the North Sea.

SeaDocs Registry has been given a deadline of less than two weeks to raise \$6m (\$4.2m) from shipowners, oil companies, and trading organisations.

Chase Manhattan, which has provided \$6m over the last four years to develop the system, is understood to be insisting that further finance is provided by companies in the maritime sector.

The SeaDocs system is intended to overcome problems with the physical transfer of bills of lading, the internationally recognised proof of legal entitlement to a cargo.

The use of bills of lading dates back over 400 years, but the system has come under strain in recent years because of the increasing complexity of trading chains, in which the ownership of cargoes may change hands several times while a ship is at sea.

A number of shipowners' organisations have recently warned their members against delivering cargoes without the protection of a bill of lading. Problems have included fraud and loss of insurance cover as well as the possibility of delivering a cargo to the wrong company.

The SeaDocs system provides for electronic transfer of bills of lading or relevant information from a computer in London. SeaDocs acts as an agent for the parties involved, guaranteeing security and transmission.

A pilot system has been operating since January in the North Sea, using cargoes of crude oil from the Ekofisk field loaded at the Teesside terminal of Phillips Petroleum. Around 100 companies are understood to have taken part in the pilot, including oil companies, shipowners and banks.

Mr John Storck, managing director of SeaDocs Registry, said the pilot had proved that the concept worked and the company was anxious to expand into the rest of the shipping industry.

Mr Storck said the project would collapse, however, unless other companies in the maritime sector agreed "to put some money on the table to develop the idea."

Chase Manhattan said it was "crucial" that other companies should invest in SeaDocs.

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| 1 | 1 | Citibank | 6.5 | 6.9 |
| 2 | 2 | Barclays | 5.5 | 5.9 |
| 3 | 4 | Chemical | 3.7 | 5.4 |
| 4 | 3 | Chase Manhattan | 3.5 | 5.6 |
| 5 | 5 | Bank of America | 2.5 | 4.1 |
| 6 | 13 | Bank of Montreal | 1.9 | 1.5 |
| 7 | 7 | Windsor | 1.6 | 3.3 |
| 8 | 5 | Bankers Trust | 1.5 | 4.5 |
| 9 | — | First Chicago | 1.4 | — |
| 10 | 14 | Standard Chartered | 1.1 | 1.4 |
| 11 | — | Australia & New Zealand | 1.0 | — |
| 12 | 16 | Royal Bank of Canada | 0.9 | 1.2 |
| 13 | — | Midland | 0.8 | — |
| 14 | 9 | Swiss Bank Corp | 0.8 | 3.1 |
| 15 | — | Lloyds | 0.8 | — |



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10th November, 1986

UK NEWS

David Thomas finds a computer chief optimistic despite the sceptics

Amstrad broadens its goals

AMSTRAD, the fast-growing UK consumer electronics group, is already working on a new version of its personal computer range - launched only in September - which is likely to be even cheaper than its present machines.

An improved Amstrad personal computer, which the company stresses will not be ready until the end of next year at the earliest, is just one of a group of new products which Amstrad is developing. The eight models in the present Amstrad personal computer range are cheaper than virtually all its competitors in Europe.

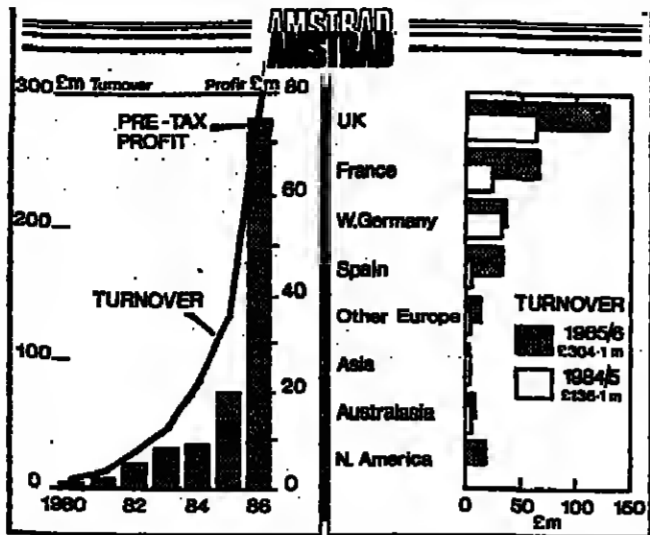
However, Mr Alan Sugar, Amstrad chairman, said that the company now realises it can build an even more cost effective machine by taking charge of the design of some of the key components itself. "We're paying a lot of money out there for a lot of redundant components not doing anything - which is not really the Amstrad style," Mr Sugar said.

In particular, Mr Sugar pointed to the hard disk as something which Amstrad could improve. "We can build the hard disk in ourselves."

The implication of saving on key components is that the next generation of Amstrad personal computers is likely to be even cheaper than the present range.

"If people think we're competing aggressively now, they'd better watch out next year," Mr Sugar said.

Amstrad is also planning other new products at present in different stages of development.



Word processors. Amstrad is designing an improved version of its low cost word processor, which notched up sales of 350,000 units in the first eight months after its launch in August last year. The improved word processor is likely to be ready in the third or fourth quarter of next year.

Printers. Amstrad is to start making four models of printers in order to sell the printers separately as a product to be used on other companies' machines. Until now, Amstrad's printers have mainly been used on its own machines.

Printers have suffered from the same type of high prices as the computer industry. There is no justification for it," Mr Sugar said. Am-

strad will boost its printer output from 20,000 a month to 30,000 to 40,000 a month by the third quarter of next year. Its Hong Kong factory will be expanded to take on the work.

White goods. Amstrad is finishing what Mr Sugar says is "a big study" of fridges and washing machines. The company will decide next year whether to start making these. Mr Sugar says Amstrad could start producing them quickly if it decides to enter these markets.

Satellite dishes. Amstrad is talking to chip makers and Far Eastern satellite dish makers about its plans to make satellite receiving dishes for a mass satellite broadcasting market. However, this is

seen as a longer term project, because satellite broadcasting is not expected to be launched in the UK until 1990 and Amstrad is unlikely to enter the French or West German satellite dish market before then.

The past two months have been difficult for Amstrad, with the company facing three main problems.

There have been rumours, strongly denied by the company, that the machines' performances are not up to scratch. The top of the range hard disk machines have been said to overheat when attachments are put on them.

The City of London has been sceptical about whether Amstrad has this time bitten off more than it can chew. The personal computer must meet its ambitious sales targets if Amstrad is to maintain its spectacular growth rates.

Amstrad has failed so far to have enough machines ready to put in dealers' and customers' hands as orders have come flooding in.

Mr Sugar has been characteristically vigorous in his response to these criticisms. He insists that sceptics will have to eat their words when sales of the personal computer feed through into Amstrad's financial results. "The City's journalists' reactions have always taken the same pattern to our new products."

"We have a very vigorous growth path up our sleeve," Mr Sugar adds. He expects margins for this year to be about 20 per cent, only slightly down on the exceptional 25 per cent achieved last year.

Television shares attract US interest

BY RAYMOND SNOODY

A NUMBER of US institutions are looking seriously at the shares of Britain's independent television (ITV) companies after a New York stockbroker's report last week recommended six leading ITV companies.

Thames Television, the largest ITV company, believes that a US institution has already been buying its shares, now standing at 333p after a July flotation price of 180p. Mr David Londoner, a senior media analyst for Wertheim, a New York investment bank and brokerage company, published a study arguing that the shares of ITV companies were undervalued compared with

the stocks of US broadcasting companies.

He recommended Thames, Yorkshire, and TV-am the commercial breakfast station as "boys." All three made their London Stock Exchange debut this year. Mr Londoner also had positive things to say about three other ITV companies he looked at - Central, London Weekend Television and Television South.

"I believe ITV companies are undervalued," says Mr Londoner who points to a compound 19 per cent a year growth in ITV revenue over the past 10 years compared with 13-14 per cent in the US. Britain's ITV

companies were worth between eight to 12 times 1987 estimated earnings, compared with 16 to 30 times for US broadcasters.

"It doesn't mean the Americans are coming but I believe that some people are having a look," Mr Londoner pointed out. Mr Richard Dunn, managing director of Thames said he was certain that a US company was in the market buying Thames shares. The number is not yet close to the 5 per cent mark where not only would the purchaser have to be disclosed but the Independent Broadcasting Authority (IBA) informed. The IBA has an effective right of veto on changes of

ownership of ITV shares above 5 per cent.

There is a growing view that the Government is unlikely to implement the recommendation of the Peacock Committee which would put ITV franchises up for auction to the highest bidder. The Government decision to extend existing franchises by two years guarantees existing franchisees, and potential revenue at least until the end of 1991.

In September stockbrokers Kleinwort Grieseson argued that ITV companies offered excellent growth prospects

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UK NEWS

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Warning of power shortages in 1990s

By Maurice Samuelson
ONE OF Britain's leading suppliers of power station equipment has warned that unless new coal-fired power stations are ordered immediately there could be a risk of electricity shortages in the 1990s. Also, UK plant manufacturers could go out of business through lack of orders.

The warning comes from Northern Engineering Industries, which shed 5,800 jobs last month in the latest of a succession of sweeping rationalisations. It reflects mounting uneasiness among contractors about the report on the Sizewell nuclear project, expected to appear before Christmas, and its effect on future power station orders.

NEI, in a ten-page "informal" discussion document, says that if no new power stations are ordered soon: the CEGB would be unable to discharge its obligations to avoid power disconnections; UK contractors would have to run down their operations "to a point from which it will be almost impossible to recover"; skills would be dispersed and export markets, currently worth £800m a year, would be lost; and plant might have to be imported which "could easily amount in time to £1bn a year."

Davy secures chemical plant contract in US

BY TONY JACKSON

DAVY CORPORATION, the UK engineering contractor, is to build a \$200m chemical plant in the US for Standard Oil. Davy is also giving Standard Oil an exclusive licence to the new technology which will be used in the plant.

Davy said the agreement involved a lump sum payment from Standard for access to the technology, a royalty on sales, and Davy's right to design and build any further Standard plants around the world using the same technology.

The US plant will produce a combined 100,000 tonnes a year of three fairly specialised chemicals - gamma-butyrolactone (GBL), tetrahydrofuran (THF) and 1,4-butanediol.

Mr Peter Waite, a director of Davy, said: "GBL is the basis for a group of chemicals which go into toiletries like Alberto VO5 and Grecian 2000, and it's growing at around 6 per cent a year. THF goes into elastomers like Lycra and Spandex, while butanediol, if it's cheap enough, can lead to the engineering plastic, PBT. That's a new thermoplastic, which we think has very good potential for the car industry."

All three chemicals will be derived from the intermediate chemical maleic anhydride, which Standard claims it can now produce very cheaply through a new process of its own.

Mr Waite said: "The deal broadens our technological base as a contractor. The advantage is that by combining our abilities with Standard's, we can take a very normal chemical like butane through a number of interesting routes. It could eventually take us from fundamental chemical production to contracting work for final products like carpet fibres, and that's new territory for Davy."

Standard Oil's chemical division, based in Cleveland, Ohio, has manufacturing sites at Green Lake, Texas and at Lima, Ohio.

Bomb fears tighten security in Dublin

By Hugh Carnegie

THE IRISH Government says it is taking seriously a threat by a Protestant paramilitary group in Northern Ireland to launch a bombing campaign in the republic from the first anniversary of the Anglo-Irish agreement next Saturday unless Dublin pulls out of the accord. It is tightening security and intelligence work.

The threat, accompanied by a claim of responsibility by the so-called Ulster Freedom Fighters (UFF), an illegal sub-group of the legal Ulster Defence Association, for the planting without warning of four small explosive devices in Dublin on Friday night. Two of the devices, left in dustbins, exploded.

The bombs confirmed Dublin's long-standing fear that Loyalist groups opposed to the accord would at some time take their violence south.

Mr Alan Dukes, the Justice Minister, reaffirmed Dublin's commitment to the Anglo-Irish agreement and welcomed as "important and very positive" a weekend speech by Mr Tom King, the Northern Ireland Secretary, outlining changes aimed at improving confidence in the judicial system among the minority Nationalist community.

Takeover deals top £10bn

BY DAVID GOODHART

THE VALUE of all reported acquisitions for the first three-quarters of 1986 has already topped £10bn according to the Department of Trade and Industry.

The £2.8bn figure for the third quarter of the year was less than half the exceptional figure of £6.3bn for the second quarter. This was lifted by the Guinness takeover of Distillers and the Hanson Trust takeover of Imperial Group.

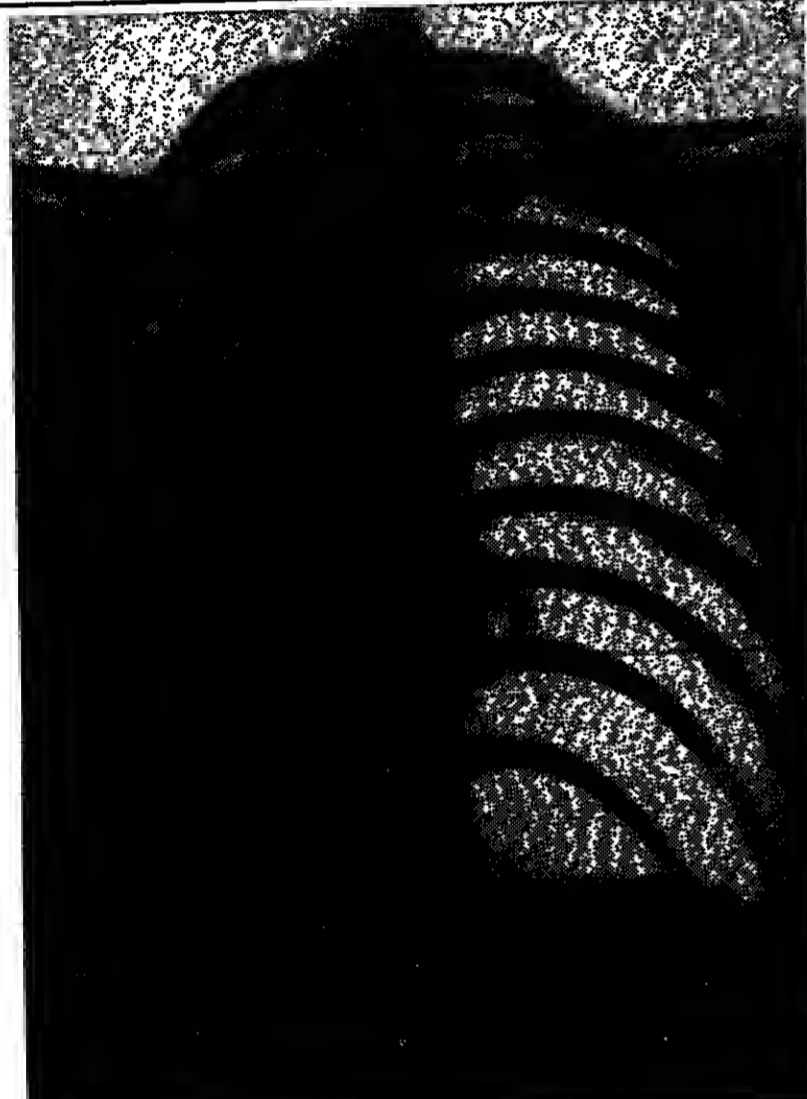
The third-quarter figure is the

second largest quarterly figure ever recorded. The number of companies or subsidiaries actually acquired in the third quarter was 207 the highest quarterly figure since the fourth quarter of 1973.

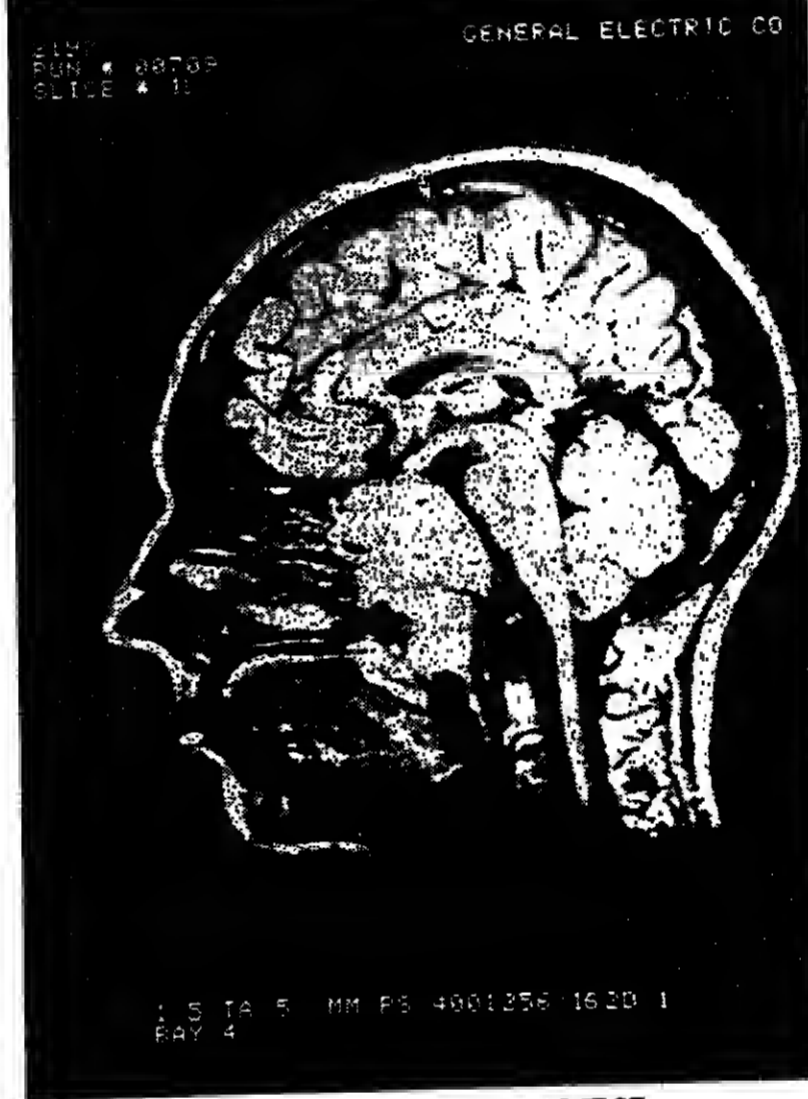
The running total for the first three quarters of 1986 is 443 companies or subsidiaries acquired for a total of £10.48bn. Mr John Kay, professor of industrial policy at the London Business School, has estimated that the bid costs for these

deals - underwriting costs, capital and stamp duties, advertising expenses and fees - has come to about £300m this year.

There were 43 acquisitions in the third quarter valued at more than £10m which came to 89 per cent of the total value of bids for the quarter. Over half the value was accounted for by the six largest deals led by Peninsular & Oriental Steam Navigation's £362m bid for Stock Conversion.



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The Interim Statement for the half year ended 31st October, 1986

The Group has made a small profit for the half year to 31st October, 1986.

Conditions have been adverse for the discount house, with a reverse yield curve persisting for most of the six months. The widely expected fall in U.K. interest rates did not materialise; instead, loose monetary conditions, illustrated by a weak currency, forced the authorities to act by putting rates up.

Gilt market making has been transferred to Gater Allen Securities Limited, now a member of The Stock Exchange. It has had an active and profitable period. We remain enthusiastic about this activity and optimistic for its future.

Other activities, including offshore banking and fund management in Jersey, financial futures broking and the management of underwriting and names agencies at Lloyd's, have made good progress.

The Board has declared an interim dividend of 5.37p per £1 ordinary share (1985 equivalent; 5.37p) which will cost £1,002,607. The dividend will be paid on 6th January, 1987, to those shareholders registered at the close of business on 4th December, 1986.

Shareholders will not be sent a copy of the interim statement, but it is being published in the recognised financial press and copies are available from the Company Secretary.

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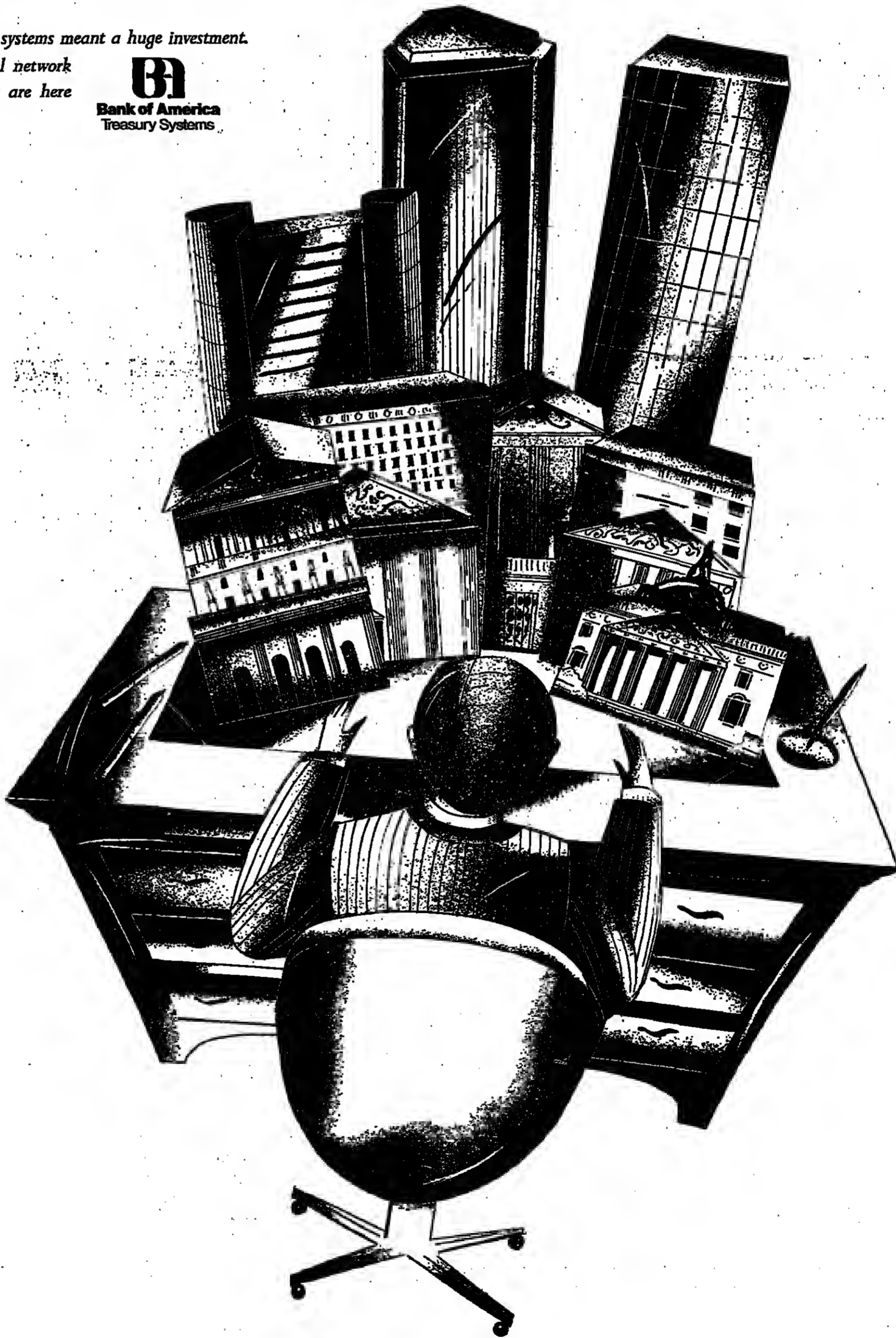
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COSMOPOLITAN PROPERTIES AND SECURITIES LIMITED

INTERIM REPORT TO SHAREHOLDERS
1st APRIL to 30th SEPTEMBER, 1986

Since the termination of the lease with Da Da Department Store, as advised to the shareholders in the Circular of August 1st, 1986, there has been no rental income from the premises which amounted to a major portion of the total rental income. On November 5th, 1986, however, a Purchase and Sales Agreement for the sale of premises (subject to the approval of the shareholders at an extraordinary meeting to be held on November 11th, 1986) at a price of HK\$157 million was entered into with Gatcher Rich Company Ltd, a wholly-owned subsidiary of Allied Overseas Investment Ltd, a publicly-quoted Company on the Hong Kong Stock Exchange.

| | 1986 | 1985 |
|---|-------------|-------------|
| Turnover | 328,982,000 | 88,872,000 |
| Profit before taxation | 30,200,503 | 10,930,000 |
| Provision for taxation | 4,000,000 | 1,800,000 |
| Net profits for the period | 26,200,503 | 9,130,000 |
| Profit attributable to Minority Interests | — | — |
| Unappropriated Profits brought forward | 11,286,982 | 11,187,000 |
| Profits attributable to Shareholders before extraordinary items | 37,487,485 | 20,317,000 |
| Extraordinary items | — | — |
| Profits attributable to Shareholders | 37,487,485 | 20,317,000 |
| Interim Dividend at 8 cents per share | 5,906,838 | 5,907,000 |
| Transfer to Reserves | 747,596 | 518,000 |
| Unappropriated Profits carried forward | 30,833,051 | 13,892,000 |
| Earnings per Ordinary Share of \$1.00 | 35.50 cents | 12.37 cents |

Directors' Interests
As at 30th September, 1986, the interests of Directors and Chief Executives and related trusts in the ordinary shares of the Company and its subsidiaries were as follows:

| | Cosmopolitan Properties and Securities Limited | Supernational Limited | Best Champ Company Limited |
|--------------------|--|-----------------------|----------------------------|
| Eric Edward Hotung | 49,837,513 | — | — |
| Lincoln Cheng | — | — | 1 |
| Peter W. H. Mark | 25,000 | 1 | — |

All the above interests are beneficial except for the ordinary shares in Best Champ Company Limited and Supernational Limited which were held by Lincoln Cheng and Peter W. H. Mark respectively in trust for Cosmopolitan Properties and Securities Limited.
Your Directors have declared an interim dividend of 8 cents per share as compared with 8 cents paid last year. This is payable on 1st December, 1986, to shareholders registered as at 30th November, 1986.
For the purpose of the payment of the interim dividend, the Register of Members will be closed from 24th November, 1986, to 30th November, 1986, both days inclusive.

ERIC HOTUNG
Chairman

Hong Kong
7th November, 1986.

UK NEWS

Thatcher to air defence doubts with Reagan

BY PETER RIDDELL, POLITICAL EDITOR

MRS MARGARET THATCHER, the Prime Minister, will later this week discuss with President Reagan the reservations of Britain and other European countries about some of his ideas on the elimination of ballistic nuclear weapons which he put forward at the Iceland summit with the Soviet Union last month.

Mrs Thatcher will fly to Washington on Friday. After meetings with administration officials that evening she will hold discussions on Saturday with the president at Camp David, before returning to London that evening.

Mr George Younger, the Defence Secretary, said yesterday that she will make clear the "slight differences" between Europe and the US and the worries of West Germany over shorter-range ballistic mis-

siles. He claimed, however, that British-US relations were at their best for some time which enabled such points to be made.

Interviewed on independent television, Mr Younger said Britain's concern was about certain "aspirations" for eliminating nuclear weapons which had not been spelled out. But he said great progress had been made in ironing these differences out.

In particular, Mr Younger said it was necessary to look at the total balance of weapons. Britain would be "happy to go along with" a 30 to 50 per cent reduction in ballistic missiles in the first year, as discussed in Iceland. He noted that the Soviet Union had agreed to the exclusion of British and French weapons.

But Mr Younger said Britain be-

lieved that there could be no question of reaching a zero balance in such ballistic missiles without substantial reductions in conventional weapons on both sides on route, as well as the elimination of chemical and biological weapons. He was sure the US would take these views fully into account.

He emphasised that in any talks about the complete elimination of strategic systems it was necessary to be satisfied that there would not be an imbalance of conventional weapons.

Mr Younger repeated the British view that anything further than general research into the strategic defence initiative by the US, such as space testing and development, would require renegotiation of existing treaties with the Soviet Union.

Alice Rawsthorn assesses the USM on its sixth birthday

Big Bang casts a cloud

THE UNLISTED Securities Market (USM) can celebrate its sixth birthday today with a clear conscience. In the six years since dealings began, the USM, which recently reached its 50th company, has achieved everything, and more, than its members, the Stock Exchange, expected of it. Yet its sixth birthday falls at one of the most critical points of the USM's short life.

Perhaps predictably, it is the Big Bang and the changes it has introduced to the pattern of trading in the London securities industry that is at the root of the USM's problems. Yet there are two schools of thought in the City of London on how problematic deregulation will prove to be.

The pessimists paint a gloomy picture for trading in the shares of small companies after the Big Bang. In a more competitive environment the securities houses will, they argue, concentrate on the larger, more profitable transactions generated by shares in big companies to the detriment of the smaller stocks quoted on the USM.

The optimistic counter that trading in the smaller USM stocks has always been illiquid and will be no better, or worse after the Big Bang. The prospects for the larger, more active stocks may even improve given that more market makers may emerge to deal in their shares.

In the approach to deregulation the pessimists' views were borne out. Some institutional investors withdrew from small company investment altogether; others remain committed to the market but have rationalised their holdings. The Prudential Corporation, for example, the USM's largest institutional investor, now invests in one in three, rather than one in two, new issues.

Similarly, the flow of companies graduating from the USM to a full listing has accelerated. Many of these companies cited concern about liquidity as their reason for graduation. There has also been a perceptible trend for new issues which, theoretically, would seem better suited to the USM to plump for the main market. The drug

| Year | Profits | Capital raised | Highly placed | Market cap | Graduations to full listing |
|-------|---------|----------------|---------------|------------|-----------------------------|
| 1980 | 28 | 12.8 | 1.5 | — | — |
| 1981 | 88 | 75.2 | 12.0 | — | 7 |
| 1982 | 62 | 62.1 | 35.2 | 2,200 | 9 |
| 1983 | 68 | 195.7 | 58.4 | 2,381 | 8 |
| 1984 | 101 | 192.2 | 68.4 | 2,488 | 25 |
| 1985 | 98 | 257.4 | 65.6 | 2,484 | 19 |
| 1986* | 73 | 226.3 | 137.9 | 2,250 | 20 |

*until September 30
Sources: County Securities, Hansa Govers, Truett Ross.

stores chain, Lloyds Chemists, for example, initially considered a USM listing but went public with a full listing last week, as will the fashion manufacturer Miss Sam Holdings, this week.

The pessimists had also expressed concern that there would be a paucity of market-makers for USM shares after the Big Bang. Even County Biggood, the only jobber to have made markets in all USM shares, threatened to rationalise its activities if liquidity suffered.

Since the Big Bang the picture has become rather more clouded. To the relief of the optimists more USM market makers have emerged, chiefly in the form of the stockbrokers, such as Capel Cure Myers, Chase Manhattan and Phillips & Drew, which act as sponsors to the market. Meanwhile County Biggood has, according to its director Mr Brian Winterford, reviewed the situation and decided, for the time being, to continue to make markets in all USM stocks.

Every USM company began the deregulated era with at least two market makers for its shares. Most fall into the gamma category of trading, 14 of the larger, more active stocks including Applied Holographics, Central Television and the Parkfield Group have become 'beta'. Perhaps paradoxically the only publicly quoted Delta company — the category in which shares are least frequently traded — came from the main market and not the USM.

Yet the pace of trading in USM shares, and indeed in most small company shares, has been distinctly sluggish. Market makers report

low turnover in the two weeks since the Big Bang, compared with a tangible increase in turnover of the larger Alpha stocks on the main market, and of distinct lack of interest on the part of institutional investors.

"The last two weeks have been very quiet on the USM," said Mr Winterford. "But the market itself has been in turmoil. Perhaps once things settle down and we establish a regular pattern of trading, interest will pick up again."

The problem of sluggish trading has been compounded by concern about the prospects for new issues on the USM. On October 27 the Stock Exchange introduced revised rules for new issues. The new rules were intended to make it cheaper and easier for companies to raise capital on the stock market. Thus far all the reforms seem to have achieved is to create confusion among USM sponsors — a group of which has lodged a formal complaint with the Stock Exchange — and to have encouraged larger USM candidates, such as Lloyds and Miss Sam, to head for the main market.

This departure of larger companies to a full listing could be accompanied by a move of smaller companies to the Third Market which the Stock Exchange proposes to introduce early next year as a junior tier to the USM. The accountants, Truett Ross, predicts that companies with pre-tax profits of less than £500,000 will opt for the Third Market and those with more than £1m to the main market, leaving the rest to the USM.

Human errors blamed for computer snags

By David Thomas

COMPUTER DISASTERS, when a company's computing system stops operating, are a serious problem for British businesses, according to a new survey.

Some 51 big accountancy practices responded to the survey, which was carried out by DataSolve, the computer services subsidiary of Thorn EMI.

Computer disasters among their client companies in the past five years were experienced by 28 per cent of the firms. The main reasons for the disasters were given as staff errors or disruptions such as fires. Two-thirds of the firms said that disasters in their client companies could have been prevented.

Ensuring that stand-by computers can take over at short notice was seen as the most important means of protection. Others included storing data off-site and protecting against fires and explosions.

Profitability in Britain improving

By Janet Bush

BRITAIN has generally been less profitable than other developed countries over the last 30 years but the performance gap has narrowed in recent years, according to the Department of Trade and Industry's British Business magazine.

International comparisons of profitability are difficult because of the differences in statistical methods between countries. But a comparison of net profit shares, the net operating surplus as a percentage of net value added, shows Britain's performance is now similar to those in other Organisation of Economic Co-operation and Development countries.

One notable feature is that the net profit share of Britain's non-financial corporations is now higher than in the US and France. In the industry plus transport sector, Britain's net profit share is now higher than West Germany's, although this is partly because of North Sea profits.

Figures for 1985-1984 show that rates of return declined in most countries over the period to around 1980 but then recovered.

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|--|---|

10 November 1986

TENDER NOTICE MALAWI

Fertiliser — Smallholder requirements 1987/88 Season
The Government of the Republic of Malawi and Agricultural Development and Marketing Corporation have a Fertiliser Revolving Fund held with The Reserve Bank of Malawi. The International Fund for Agricultural Development (IFAD) and The International Development Association (IDA) have contributed to the Fertiliser Revolving Fund. The Fertiliser Revolving Fund will be utilised exclusively for the procurement of Fertiliser for the Malawian Smallholder Sector's 1987/88 Season's requirements.

Tendering procedures will be in accordance with IFAD and IDA procurement guidelines. Brief details of the Fertiliser required are as follows:
Between 15,000 and up to 25,000 metric tonnes NPK Compound 20:20:0;
Between 30,000 and up to 40,000 metric tonnes Calcium Ammonium Nitrate;
Between 5,000 and up to 10,000 metric tonnes Urea;
Between 5,000 and up to 10,000 metric tonnes D.A.P.;
1,000 tonnes NPK Compound 15:15:15

The closing date of the Tender is 3rd December 1986 and Tender Documents may be obtained by any interested bidders from the address below:
THE MALAWI FINANCE CO. LIMITED
Roman House, Wood Street, London EC2Y 5BP

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Tenders are invited for the supply of materials for travelling covers at the County Council under a contract hire scheme.
Tender forms, and further details, are obtainable from the County Council, Dorchester, Dorset, on 10th November 1986. The forms are to be delivered to the Council office at 2.00 pm on Monday, 16th November 1986.
The Council do not bind themselves to accept the lowest or any tender.

K. A. ABEL, Chief Executive,
County Hall, DORCHESTER,
Dorset DT1 1XJ.

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ABBL LUXEMBOURG IN THE NEWS

A report for international decision-makers

■ II/86

Luxembourg's growing contribution to the development and scope of international capital markets

BY KARL GRUEN

The role of many financial institutions in intermediating between lenders and borrowers has been altered significantly during the past five years, and this process has not yet reached its end. Liberalization measures in a number of major financial centers and the emergence of new financing instruments are at the root of these changes. "Marketability" of both assets and liabilities is the key word. Consequently, "securitized" lending is gaining in importance against the once dominant syndicated loan business.

Such developments are having a dramatic effect on the structure of the balance sheets and profit and loss accounts of most international banks. Growth in classical Eurobonding has been slower in recent years compared with the booming seventies. Yet, the income of the vast majority of Luxembourg-based banks held up well against the problems of worsening country risks and deteriorating lending margins.

A Bank of England compilation of international banking figures by centers shows that the share of international bank lending of the three largest banking centers together (London, New York and Tokyo) has been falling during the last two years, from over 50 percent in 1983 to 48.4 percent in 1985 (end-September), and this despite a strong growth of loans booked in Tokyo. The major rise was in the share of continental European centers, among them Luxembourg. By volume on the books the latter now ranks fifth among the leading international banking centers, after the United Kingdom, the United States, Japan and France.

It is from such a base of strength that Luxembourg-based institutions continue to diversify into fee generating activities. Not only have they been able to change their funding ratio between non-bank and bank deposits (from 1:8 in 1979 to 1:4

in 1985), but they also have increased their non-interest income by more than 63 percent from 1982 to 1985. While the former fact indicates a distinct rise in private banking activities, the latter reflects partly a growing importance of securities-related transactions.

Substantial Eurobond Activity

Except for 1982, the number of Eurobond issues with a Luxembourg participation in the syndicate has constantly been over 20 percent of the total. The continuing weight of these commitments was again mirrored in last year's underwriting statistics.

The important role of Luxembourg in the Eurobond market did not emerge by accident. Damien Wigny, executive director of Kredietbank S.A. Luxembourgese and until recently chairman of the Associ-

ation of International Bond Dealers, stresses three direct contributions by Luxembourg to the success of the Eurobond market: "imagination, placing power and a strong presence in the secondary market." By no means does such a claim appear exaggerated.

As for new ideas, new techniques and new instruments introduced to improve the flow of funds from lenders to borrowers, Luxembourg banks were prominently involved from the inception of the Eurobond market. What is generally recognized as the first ever Euro issue, a 5 million Unit of Account bond issued for the Portuguese company Saor, was launched by a Belgo-Luxembourg group in 1961. Later in 1965, when the Eurodollar bond as such was born in the form of the famous US \$ 15 million 15-year issue for Autostrade of Italy, it seemed only natural at that time that the five-strong management group included a bank from Luxembourg. In 1981, the first ever ECU bond deal, an issue for Softe, subsidiary of STET

(Società Finanziaria Telefonica per Azioni), the Italian state company of the telecommunications industry, was brought to the market by a Belgo-Luxembourg group. Ever since, Luxembourg-based institutions have continued to play leading roles in developing the ECU. This is illustrated by the fact that in 1985 the ECU was the fourth most used denomination in the international bond markets after the US dollar, the Swiss franc and the D-mark.

For Luxembourg banks to be in the forefront of so many new issues also reflects an international recognition of their extraordinary placing capacity, both with institutional and with private investors. In particular, they maintain close contacts with medium-sized insurance companies and pension funds. In addition, what is usually called in-house placing has significantly gained in importance during recent years.

Volker Burghagen, managing director of Compagnie Luxembourgeoise de la Dresdner Bank, summarizes the reasons behind Luxembourg's popularity with the wealthy international investor under these headings: "Legislation on bank secrecy, existence of a full universal banking system, no minimum reserves, no VAT on gold, no disturbing tax regulations for foreign customers, an efficient banking supervision, political and social stability, no sudden and tough changes in the legal environment relevant to investors - in short, a high degree of reliability."

242 Investment Funds

"A further indication of Luxembourg's importance as a turntable for the funds of private investors is the growth of the investment fund sector. The number of

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|--|--------|--------|--------|--------|--------|
| All currencies | | | | | |
| Issues where Luxembourg banks participated in the underwriting syndicate | | | | | |
| Volume | 5,297 | 7,125 | 10,060 | 16,769 | 55,532 |
| Percentage of total | 21.8 | 16.3 | 22.7 | 25.4 | 26.6 |
| Issues quoted on the Luxembourg Stock Exchange | | | | | |
| Volume | 11,058 | 20,928 | 27,366 | 40,987 | 84,158 |
| Percentage of total | 45.4 | 47.9 | 61.9 | 57.5 | 65.3 |
| ECU | | | | | |
| Issues where Luxembourg banks participated in the underwriting syndicate | | | | | |
| Volume | 206 | 680 | 1,575 | 2,804 | 4,262 |
| Percentage of total | 100.0 | 100.0 | 91.9 | 100.0 | 62.4 |
| Issues quoted on the Luxembourg Stock Exchange | | | | | |
| Volume | 208 | 680 | 1,714 | 2,804 | 6,595 |
| Percentage of total | 100.0 | 100.0 | 100.0 | 100.0 | 96.5 |

Source: Luxembourg Monetary Institute

these funds registered in Luxembourg reached 242 by the end of June 1986.

In addition to a growing involvement in the management of these funds, Jean Pierson, member of the executive committee of Banque Paribas (Luxembourg) S.A., observes that Luxembourg institutions supply the full range of services necessary to administer and run investment funds. He adds: "The availability of direct computer connections ensures efficient communication between administrator, adviser and manager." Pierre Jaans, head of the Luxembourg Monetary Institute, has welcomed the growing number of investment funds as an enrichment and a diversification of the financial center of Luxembourg and indeed calls it "a trump in the international financial environment marked by a shift of activity from the traditional syndicated credit activity to a market for a wide range of bonds and other marketable instruments."

banks of the Association of International Bond Dealers the Grand Duchy is, next to the United Kingdom and Switzerland, one of the most important regions of the Association.

Practically all sectors of the Eurobond market are thus being served from Luxembourg. But there are, of course, certain market sectors for which international dealers cannot but regularly call on Luxembourg names when they try to establish going prices. Among these are bonds denominated in ECUs, D-marks, Japanese yen, and Dutch guilders.

As barriers between domestic and international markets are coming down and new investment and lending techniques are being developed, the infrastructure of the international capital markets needs constant improvement and adaptation. Here again, a Luxembourg-based organization is in the forefront of progress. Cedel, one of the two major international securities clearing houses, has, since its inception in 1970, made a remarkable contribution to the development of cross-border transactions.

Luxembourg's Stock Exchange

The health of any market must always be judged by the existence of a liquid and smoothly functioning secondary market. Regarding the Eurobond market in particular, Luxembourg has from the beginning been contributing substantially to the provision of such a secondary market. One important formal pillar for the transparency of the Eurobond market is indeed provided by the listing facilities of the Luxembourg Stock Exchange. Its 45 page official price list gives quotations for almost 4,000 securities, some 87 percent of which are Eurobonds denominated in 20 different currencies or currency baskets. All in all, two-thirds of the volume of all public Eurobond issues representing issues for more than 1,800 different borrowers from 55 countries are Luxembourg-listed.

Compared with a global secondary market turnover in excess of US \$ 2.5 trillion per annum the actual turnover on the stock exchange is certainly less impressive. Eurobond transactions are done mainly in a dealer market provided by market makers who themselves communicate electronically all over the world. Moreover the president of the Luxembourg Stock Exchange Commission and general manager of Banque Générale du Luxembourg S.A., Jean Meyer, points out that by looking as well for "beyond deals for size only" and by serving the small eod-investors, the Luxembourg Stock Exchange is providing a particular market segment with essential liquidity.

Luxembourg contributes significantly to the smooth development of the international bond market. With 60 member

The Role of Cedel

Owned by 400 institutions from 16 countries, it directly serves almost 1,700 participating banks, brokerage houses and other financial institutions located in 60 countries by eliminating physical transfer of securities between sellers and buyers on a worldwide scale. Cedel also provides a number of ancillary facilities linked to the settlement of cross-border transactions. More than 15,250 issues are now being cleared through Cedel. They include Eurobonds, floating rate notes and convertible bonds, Yankee bonds, US treasury bonds, Samurai bonds and Swiss franc foreign bonds, German domestic bonds, Euronotes, Eurocommercial papers and certificates of deposit issued in London, New York, Luxembourg, Hong Kong and Singapore as well as internationally traded equities and gold bullion. At end-June 1986 some US \$ 131 billion worth of issues were held by Cedel under central administration. Turnover in 1985 reached US \$ 762 billion.

Of particular importance, according to Cedel chairman and member of the executive board of Banque Internationale à Luxembourg, Edmond Israel, is the fact that Cedel is the main central safekeeping and clearing institution for financing instruments denominated in ECUs. Furthermore, he underlines "the double role of Luxembourg as a banking center within the global market as well as the financial capital of the European Community."

The coming of age of the ECU

The ECU market is growing to impressive size. The use of the ECU as a unit of account in international transactions has increased rapidly during the last four years. Future growth prospects look bright. Luxembourg - from where the first ideas for a "European Currency" originated and where ever since imaginative applications of the concept of a European basket currency have been intensely cultivated - is set to benefit from a further substantial broadening of worldwide interest in the development of the ECU.

Nothing demonstrates the success story of the ECU better than a recent advertisement in a U.S. publication under the headline: "The ECU has a future in New York." Sixteen years after Pierre Werner, the former prime and finance minister of Luxembourg, vigorously advocated the concept of a European Currency Union there are still as many currencies within the European Community as there are members. But far beyond any official progress towards full formal recognition of the child that later, in 1979, was christened "European Currency Unit" (ECU), market forces have started to adopt the idea with overwhelming enthusiasm.

Already in its 1985 Annual Report the Bank for International Settlements was prompted to state: "In view of the high degree of diversity of the ECU market and its broad institutional underpinning, there can be little doubt that the use of the ECU will be a lasting feature of the international financial markets." How well established a phenomenon the ECU has become, at least among professional and institutional participants in the international capital markets, is highlighted by the following observation of Jean Krier, member of the executive board of Banque Internationale à Luxembourg: "Not long ago," he remarks, "most people had to resort to their calculators in order to arrive at the going interest rates for ECU-denominated paper by weighting the

various basket components. Today, ECU yields and their spreads, although related to those of component currencies, are increasingly considered as having their own existence."

At present, the ECU consists of fixed quantities of the currencies of ten of the twelve European Community member states. Those of Spain and Portugal are expected to be included in the basket by 1989. These quantities depend on a number of periodically reviewed criteria related to basic economic factors.

Although the weight of the component currencies in the basket as well as the actual market value of the ECU are linked to currency fluctuations, the relative stability of the ECU in a world of highly volatile foreign exchange rate markets is widely acknowledged. This is, of course, not only the result of administrative EMS rigidities, but also of the fact that the ECU represents a mix between stronger and weaker currencies. The ECU, in its own way, reflects the economies of a major region of the globe which are gradually converging.

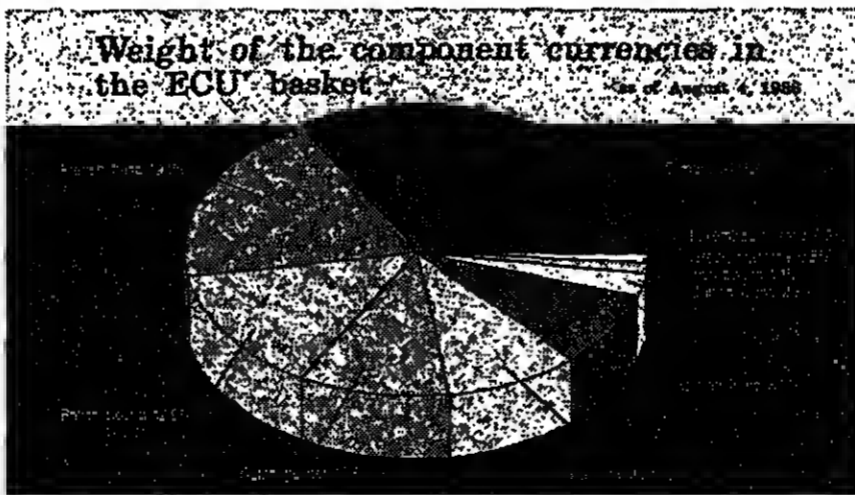
ECU: A Brief Survey

Although a limited number of private transactions were pioneered before 1981, the ECU did not receive much more than the benefit of curiosity by banks outside Luxembourg until this date.

Since then, the role of the ECU as an investment and lending currency has systematically been broadened, not least with the active support of Luxembourg-based institutions, including the European Investment Bank.

The use of the ECU in the international banking market has been growing impressively since 1982. Bank assets have al-

ways been higher than liabilities suggesting that the difference is being funded with ECU component currencies directly. At the same time, the use of the ECU in the international bond market literally exploded.



This development was accompanied by a proliferation of available instruments both in the Euro market and in a number of domestic capital markets. In addition to conventional straight issues and among available instruments, appeared ECU floating rate notes, ECU zero coupon bonds, ECU paper with participation warrants and convertible bonds, ECU issues with extendable maturities and issues with adjustable bonds. At the short end of the market, ECU certificates of deposit, both fixed and with floating rates, have frequently been launched.

In the money market, the number of banks actively participating is estimated to have reached several hundred with approximately a dozen acting as market makers. The ECU is bought and sold spot and forward against practically all other convertible currencies, an additional feature being the beginning of thriving ECU futures and ECU options trading.

At present, a widely spread opinion is that the role of the ECU could be further extended not only as an investment and trading vehicle, but also as a means of invoking commercial transactions. Thanks to increased acceptance of the ECU by private and corporate users, the basket currency is receiving growing official recognition.

Luxembourg banks have always been among the most enthusiastic protagonists of a development which now has reached a phase when the internationalization of the ECU is becoming more obvious with

each day. More and more portfolio managers in various countries have been converted to place larger parts of their assets under management in ECUs. ECU borrowers, who up to now predominantly are names from Italy, France and the Euro-



pean institutions, are increasingly coming from Japan, Scandinavia, the United States and Australia as well.

Moreover, a clearing system of the ECU set up by various banks has been functioning since October 1, 1986.

Growing ECU Appeal

It is only natural that along with such a growth and diversification of the market the ECU cannot remain the sole property of any particular financial center. So far, business has been concentrated mainly in five countries, France, Belgium, Luxembourg, Italy and the United Kingdom, with the United States and Japan also showing encouraging signs of increased interest in developing the ECU market.

While banks in Italy account for the bulk of total bank claims on non-banks, while banks in the United Kingdom specialize in the interbank market and banks in France are in a somewhat intermediate position, banks in Belgium and Luxembourg account for a very large share of total ECU cross-border lending to non-banks and at the same time attract a sizeable amount of ECU deposits from non-banks. Investment portfolios and deposit accounts of investors of all sizes with Luxembourg banks are indeed proof that, as ABBL president Remy Kremer puts it, "the private investor strongly believes in the future of the ECU."

| | Assets | Liabilities |
|----------------|--------|-------------|
| December 1982 | 6.5 e | 5.5 e |
| December 1983 | 11.9 | 10.9 |
| December 1984 | 28.2 | 22.3 |
| December 1985 | 37.1 | 29.9 |
| March 1985 | 38.8 | 33.4 |
| June 1985 | 48.6 | 42.4 |
| September 1985 | 54.5 | 48.3 |
| December 1985 | 61.4 | 54.9 |

e = estimated. Source: Bank for International Settlements; ECU Newsletter.

Mr. Jacques Grojean, Press Secretary, ABBL, Luxembourg Bankers Association, B.P. 15, L-2010 Luxembourg.

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I'm afraid it's just not croquet

BARRY RILEY

INSTITUTIONAL clients are almost in a panic, able to deal in large size and on dimly lit spreads, but the fear is that it is all too good to last. At some stage the market makers will have to begin making some money.

Two weeks after Big Bang the glare of publicity is still upon the frailty of the Topic computer system (with another two brief failures on Friday) and upon the administrative problems within the settlement process. Weekend trading was had enough in the pre-Big Bang dress rehearsals, but Saturday's emergency call to sort out mismatched bargains did not go down at all well with the market's practitioners.

But the settlement problems appear to be due to a general lack of familiarity with amended procedures rather than with any catastrophic failings of the systems of any particular member firms. These difficulties should prove only temporary. Yet the emerging trading patterns within the new market structure could prove to be of more enduring significance.

The main feature, market participants agree, is that trading by institutional fund managers net of commission directly with market makers has been anticipated. There is a big question mark over the future of agency broking, for a commission.

Another important, and associated, feature has been the very rapid depopulation of the Stock Exchange's trading floor. The success of telephone trading has led to an almost complete movement by market makers to "upstairs" trading rooms. The Stock Exchange's £3m investment in improving the trading floor now looks very doubtful wisdom; it was the same token its plan to recoup part of this expenditure by charging a hefty entry fee for agency floor dealers appears distinctly optimistic.

That the market should develop in this way is not at all surprising, but it was not so easily predictable that it would happen so quickly.

Of course, the exchange's decision to run a trading floor at the same time as a new screen-based, telephone trading system amounted to a straightforward bedding of bets. If the telephones were jammed, the floor would be there. It was never very realistic to argue that the two systems could coexist in the long run.

Similarly most of the major broking firms decided to offer an agency service as well as a direct market making facility. It was prudent to offer clients both alternatives while uncertainty existed. But the big securities firms took care to build flexibility into their structures and they will no doubt be considering whether to adjust their allocation of resources.

But these are still very early days. There are signs that institutional fund managers are enjoying what may not be such fun when the novelty wears off. "Vengeance is sweet," answered one fund manager last week, explaining his reluctance to pay separate commissions. This was his chance to hit back, after years of lining brokers' pockets.

A quite different view came from another institutional investor, who complained that neither he nor the agency brokers had a feel for the market in the same way that they enjoyed under the old system. Indeed, there was a fear that the agency form of a market was not in a position to break the market properly.

Perhaps this would change as the brokers became more familiar with the inner workings of the new market. But the time being it seems a more logical cut to deal directly with the market makers.

There is a difference here between the majority of leading securities firms, which have decided to act separately, both as agency brokers and market makers, and the two big firms—James Capel and Cazenove—which have confined themselves to the agency role. There are indications that these firms have struggled a little, although not so much as the agency arms of the same service firms where the internal conflicts have proved damaging.

So the fund managers are enjoying themselves. In addition, the spread has often dropped to a quarter of three-eighths in the old market, and individual trades of more than £10m have been completed. In leading equities it has often been possible to deal "choice" in size,

that is, at the same price either way, and the spread has rarely been more than a penny or two. Commissions on agency business have fallen by 40 or 50 per cent from pre-Big Bang levels.

But it is doubtful whether this can last for long. The market makers' blood may not yet be flowing in the streets, but it must be trickling down their desks. The institutions know that they must not take too short term a view, or the market will begin to disintegrate.

Apart from anything else, they have made agreements to allocate a certain volume of agency commission to quality agency commission. Typically, a guarantee of £250,000 of commission in a year will be rewarded with a rate of 0.2 per cent, £100,000 with 0.25 per cent.

But if they are not doing the expected volume of agency business, the question arises whether they will qualify for the finest rates after all. That could lead to a re-emphasis on commission to quality transactions, or perhaps just to a renegotiation with hard-pressed brokers.

In the short run the managers know that the market will continue to flow, whatever happens. They would not be unhappy to see a cut in the volume. But disorderly conditions could see the good research teams being disbanded along with the media.

A key element in the current pattern of trading could settle down a little.

But the general rule in the securities market is that the fund managers tend to be relatively passive, while the securities firms have developed the pattern of trading could settle down a little.

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INTERVIEW

Bringing down the house

Preacher and GM director Leon Sullivan has made himself the conscience of US business in South Africa. He talks to Terry Dodsworth

IT IS the Sunday after General Motors and IBM have announced their withdrawal from South Africa, and in black Philadelphia the Rev Leon Sullivan, the most distinguished US clerical campaigner against apartheid, is in the mood for celebration.

He stands at the pulpit in an uncompromising preacher's church. The semicircle of pews and the balcony facing him are packed with at least 1,000 worshippers, in their Sunday best. Behind him the choir is swinging to the rhythm of a hymn which sounds as plaintively painful as the blues. Emotion is soon flowing palpably through the church as the congregation responds to the performance with cries of Amen and outbursts of applause.

Leon Sullivan is 6 ft 5 in tall, an imposing man whose athletic prowess helped him win football scholarships through university. He towers over the expectant congregation with a white-haired Baptist preacher with a message which reaches beyond Christianity to embrace the fight for racial justice and equality. Today, after years of struggling against apartheid, he brings the sermon to a triumphant conclusion with an oratorical climax which would have done justice to Martin Luther King.

"When we initiated our effort in South Africa ten years ago," he cries, "people said discrimination would stay for another 300 years. But they didn't realise that God was there. . . . When GM decided to get out of South Africa, God lifted the mountains and said: Leon, walk. And when IBM decided to get out of South

has a membership of 6,000, is reckoned to be one of the largest black churches in America and takes a collection every Sunday which runs into several thousands of dollars. On all but the wettest of Sundays people flock to hear the Rev Sullivan's oratory in such numbers that they are standing in the aisles.

Zion's size, wealth and prestige are one of the factors behind his influence in the black movement. But to a larger degree, his prominence, and his position as the second most controversial black clergyman after the Rev Jesse Jackson, rest on his work in the white man's business world. Since 1971 he has sat on the board of General Motors, the largest company in the world; and, with the full weight of GM behind him, he has become the leading policy-maker on apartheid in American business in South Africa.

This policy is enshrined in the so-called Sullivan Principles, a set of guidelines for responsible corporate action in South Africa first developed almost ten years ago. Impregnated with the belief that the South African Government can be reformed from within without violent confrontation, the Principles are clearly the work of a political moderate who shuns uncontrolled conflict.

They lay down rules for equal treatment of black South African workers—the abolition of segregated facilities, equal pay, the possibility of advancement to managerial levels, trade union rights and education—which are aimed at undermining apartheid by first eradicating it in the workplace.

In such a polarised arena as the black rights movement in America, it was inevitable that Sullivan's code of practice should have attracted both criticism and controversy. For the

radical anti-apartheid groups who want to shank the South African Government through the US corporate divestment, this gradualist approach is seen as a sell-out to corporate America. It is easy to attack Leon Sullivan as a capitalist tool, GM board member who has been lured into condoning continuing US investment in South Africa.

The radicals are right, indeed, in arguing that the Principles have provided an effective moral justification for companies refusing to divest their South African interests. About two-thirds of the 300 or so US corporations with investments in South Africa have signed the Principles, and they frequently deflect criticism by pointing to the fact that they are operating according to the code.

Yet Sullivan, who had himself been an early proponent of divestment, advocating withdrawal at GM's shareholders' meeting in 1971, when he was already a director of the company, has a problem in justifying the Principles.

"At the centre of the Principles was the idea of the empowerment of the black worker, because I believe that if you educate the black man and empower him through his trade union, you can get a powerful force for change."

His conversion to this approach was a natural evolution from the social work he had been doing in America. From an early age, Sullivan had been convinced of the rightness of linking the cause of black advancement to his Christian faith. After a spell at Columbia University in New York, he worked briefly in Harlem, the city's black ghetto, with Adam Clayton Powell, the first black Congressman. "Jesus said feed the hungry, clothe the naked and provide shelter for people who have no homes. That is economic and social together, and the mission of Jesus as I see it is to help people on Earth."

In the 1950s and 60s his activism led inevitably to the Civil Rights movement, and a confrontation with the US economic structure that was to have a profound effect on his work and ministry. He organised a product boycott of discriminatory employers accused of discriminating against blacks—an extremely effective attack, it turned out, in a city with such a large black population. But when the employers caved in, he realised that many of the people he had been fighting for lacked the skills that would enable them to keep a decent job.

This recognition led him to a moderate among black leaders, willing to work within the economic system. In Philadelphia he set up a training school with money borrowed from within the black community, and from any available source, to set up a training programme which has become the largest of its kind in the US. Today, after proving its worth in Philadelphia, it embraces 100 cities. It has, he says, trained a total of 9,000 blacks, and put 7,000 in jobs.

Meanwhile, in the limited sense of the amount of support they have garnered, the Principles have been a success. But judged in the light of what they set out to do—to help destroy apartheid—the controversy over the code is likely to continue.

Sullivan, naturally, sees things very differently. The Principles, he says, have to be accepted for what they are, and he concedes that they have not worked in widening their appeal to other foreign companies in South Africa, and in making any visible impact on the South African Government.

The original idea of the code was that it steadily more radical in its drive against segregation, finally forcing companies to denounce apartheid categorically. The overall corporate sector in South Africa has not moved far enough or fast enough along this path.

The moves by GM and IBM are helpful at this time, he adds, because they deliver a message to the South African authorities that the independent law report of November 6, 1986 covered the case as did the Times Law Report of November 6, 1986. "Yes, it is a delight to see the code modified after a cool examination of the legal issues involved."

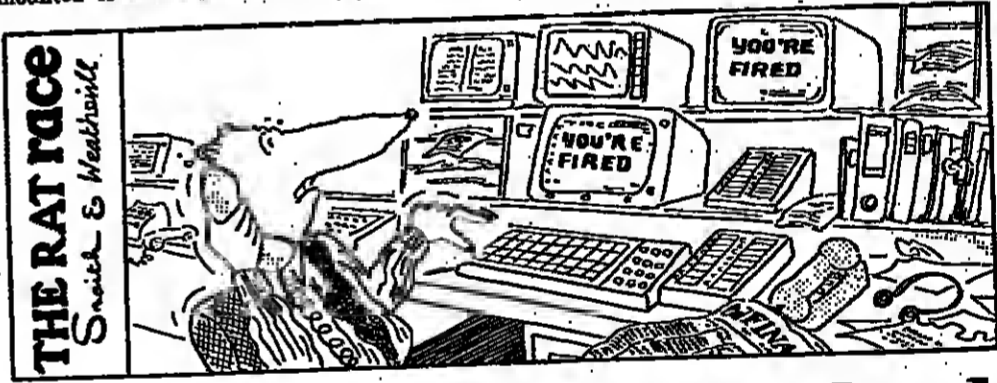
The factual background to the proceedings for judicial review was the decision of these local authorities, as library authorities under the Public Libraries and Museums Act 1964, to ban from their public libraries all copies of the Times, The Sunday Times, The Times Educational Supplement, The Times Higher Education Supplement, The Times Literary Supplement, The Sun and the News of the World.

The decision was a gesture of sympathy and solidarity with the views and activities of employees, their unions, the union leaders and representatives in an industrial dispute which had arisen after the transfer of newspaper production to Wapping, a consequential strike and many resulting dismissals.

But the decision of the Divisional Court's ruling that the library authorities' ban was unlawful was that in all the circumstances it was an abuse of their statutory powers. The court therefore had the right and duty in the proper exercise of its discretion to grant the remedy of judicial review and declare the ban illegal.

The library authorities' relevant duties and powers are contained in the 1964 Act.

Section 7(1) of this Act provides that: "It shall be the duty of every library authority to



Libraries brought to book

JUSTINIAN

ALL these provisions seem to create a complete procedure for dealing with any defaults or defects by library authorities.

Why did not the Divisional Court in its discretion refuse the remedy of judicial review on this occasion and suggest that the applicants take steps or make a complaint to the Secretary of State under section 10(1)(a) of the Act so as to enable the procedure prescribed under the Act to be used?

The reason is that the Divisional Court treated the ban not so much as a breach of the library authorities' duty under section 7 of the Act as an abuse of their powers. The decision to impose the ban was regarded as an abuse of power because of its ulterior object.

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|--|--|--|
- 10th November, 1986

PERSONAL FILE

- 1922 Born Charleston, West Virginia. Education: West Virginia State College, Union Theological Seminary, New York. Columbia University, New York.
- 1950 Pastor, Zion Baptist Church, Philadelphia.
- 1964 Launch of Opportunities International Centres—a nationwide training programme for blacks.
- 1977 Director, General Motors.
- 1977 Launch of the Sullivan Principles.

JP 11/10/86

FINANCIAL TIMES SURVEY

Monday November 10 1986

Florida

Optimism about the state's future is fuelled by increases in the population, in commercial activity and the number of jobs. However, Florida will have to cope with greater pressures on the infrastructure and environment.

America's 'dream state'

APOLOGISING FOR "sounding like a Texan" as he outlines Florida's growth potential, Mr Charles Zwick, chairman of Southeast Bank, the state's largest, is not alone in finding it hard to be pessimistic about the future of what President Reagan recently described as the "American dream state."

But the strain that this pace of expansion is putting on Florida's over-burdened roads, sewerage and water supply systems, on its prisons, schools, hospitals and social services—not to mention its already fragile environment—is causing concern and division within the state. It has added a new note of urgency to calls for considered growth management and led to a debate as to who should pay for necessary improvements in the infrastructure.

Florida is, of course, not the only state to bask in the shift of the economic spotlight from rust-belt to sun-belt. Others in the south east and south west like California, Arizona, Nevada and Texas (before the oil slump) have also benefited. But Florida has a number of advantages over its rivals. It is growing faster than most. Its economy, while remaining primarily trade and services oriented, is diversifying rapidly from a traditional three-way dependence on agriculture, tourism and construction into light manufacturing, particularly of high technology products, and into banking and financial services.

Florida's 1,350 miles of coastline and proximity to Latin America and the Caribbean islands make it a natural landing point for drugs. Mr Leon Guinn, assistant regional commissioner at the US Customs in Miami, estimates that up to 75 per cent of the cocaine smuggled into the US this year will come through Florida. While the government has increased the manpower and financing to combat drug smuggling, Mr Guinn does not

see an end to the battle. "The violators can always out-resource us," he says. Miami with its geographical position and ethnic mix of population is the natural "cocaine centre" of the US, Mr Guinn says. Although Miami produces figures showing a decline in all categories of violent crime except murder, it concedes that most crime remains drug-related. Miami has made serious attempts to clean up the problems, including a tough crackdown on street sales of drugs, but violent crime remains an everyday fact of life, particularly in the city's poorer districts. So accustomed have Miamians become to their city's image that some business leaders and politicians attempt to cash in on the way it is presented in the popular Miami Vice television show. "It shows the drugs and violence here, but it also shows the beauty and wealth of the city," says Mayor Xavier Suarez.

Although the traditional industries, particularly tourism (the state expects over 30m visitors spending nearly \$20bn this year) are still important, the economy is losing its former roller-coaster character. This has coincided with a sharp decline in construction because of a glut in the commercial property market and a series of harsh frosts that wiped out over a quarter of Florida's profitable citrus groves.

Mr Zwick feels that the closer interlinking of Florida's economy with the national economy that this diversification brings may make the state more vulnerable to the effects of a nationwide recession than in the past. "That is the one thing that could pull the plug if it got so bad as to stop immigration," he says.

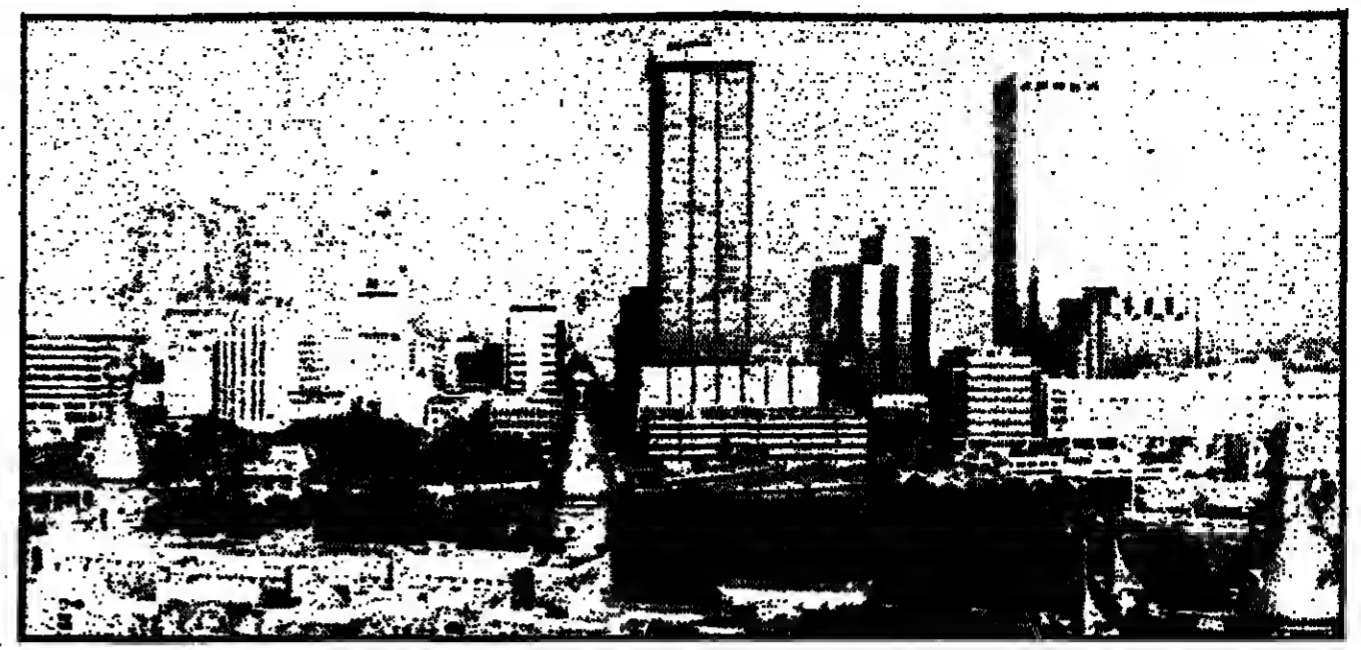
Mr Fishkind agrees: "If interest rates get so high that people can't sell their houses up north, they don't move," he says. But he points out that Florida has useful buffers against recession, notably the dollars in pensions, Medicare and savings brought in by retired folk, estimated at up to 22 per cent of the state's \$151.2bn total personal income. But a slowdown in growth is exactly what some people would argue the state badly needs simply to catch up the backlog on infrastructure and services.

At the end of last year the state government introduced comprehensive legislation toughening state and local planning restrictions on beach-front development and calling for an improved infrastructure. Mr Zwick, formerly a budget director in the Lyndon Johnson Administration, was appointed to head a commission to look into ways of raising revenues to fund the \$50bn to \$70bn backlog. The commission's report will look at short- and long-term sources. In the short term it might suggest an increase in petrol taxes, road tolls and other "user fees" like airports and seaport taxes.

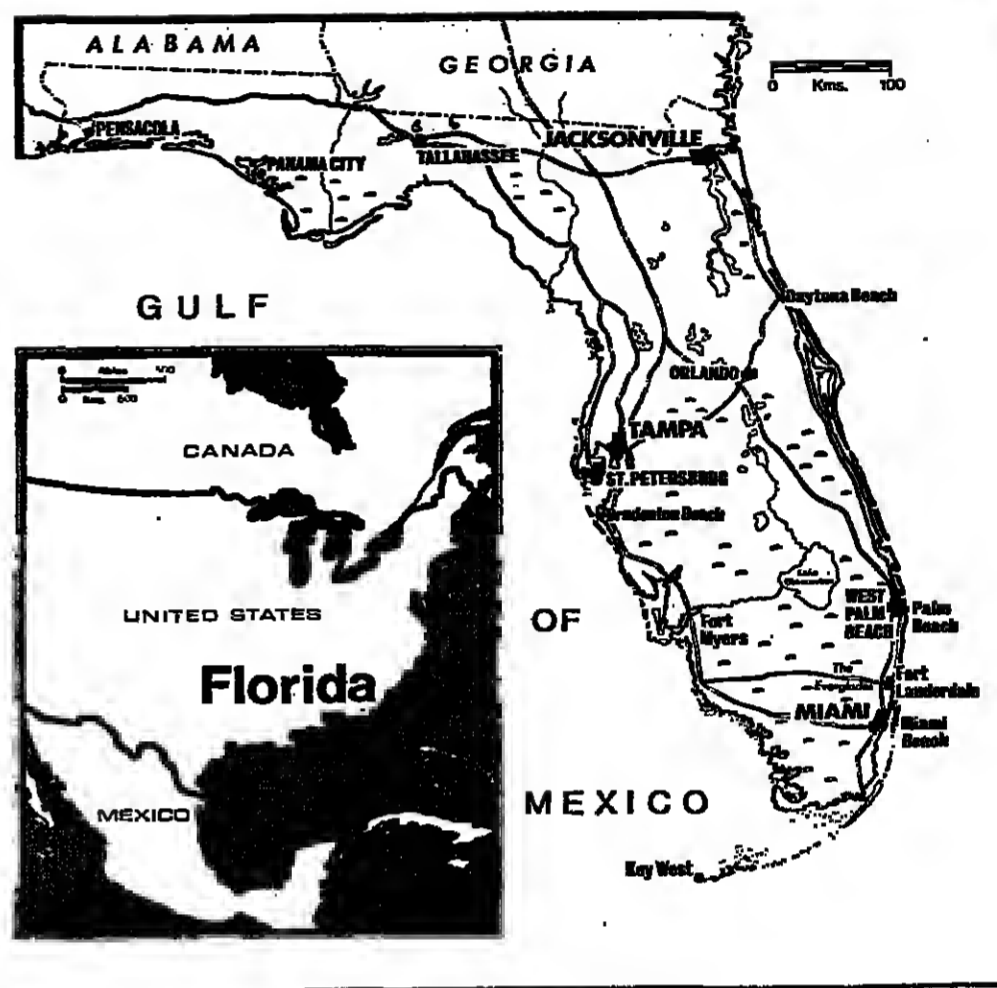
The debate over who should pay the increased taxes is pitting against each other Florida's old and young populations or, as Mr Stephen Morrell, an economist at Southeast Bank, puts it: "Those who came here to protect their wealth and those who have come here to create wealth."

Younger residents demand more schools, universities, public hospitals and better roads while those that are working are better able and probably more willing to pay for improved services.

At the heart of the controversy is a state tax system devised, ironically, to attract newcomers. In this sense Florida has become a victim of its own success.



Downtown Tampa. The city's skyline has changed rapidly with the construction of many new buildings including the 42-storey Barnett Plaza and 22-storey Ashley Tower. Tampa also has a monorail system.



By Charles Hodgson

Stimulated by a staggering population growth, estimated at up to 1,000 new arrivals a day, Florida is booming. In the decade between 1974 and 1984 its population rose almost 32 per cent compared with 10.7 per cent for the US population as a whole, according to figures published by the state's Commerce Department.

Last year alone the population increased by 3.4 per cent compared with 0.9 per cent for the whole US, employment by 5 per cent against 3.75 per cent, and personal incomes by 8 per cent against 6 per cent. This year Florida will lag behind only California in the rate of population growth and may well outpace California in new jobs and housing starts.

While growth rates have eased and are likely to slow further as the nation as a whole slips into an expected recession towards the beginning of 1988, the upward trend shows no signs of slackening.

Mr Zwick expects the state's population, now 11.7m, to rise by a further 29 per cent to 15m by the end of the century, moving Florida up from sixth to third largest US state behind California and Texas.

Some 3m jobs will be created—a 61 per cent increase—and personal income boosted by 54 per cent in the same period, he said.

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FLORIDA 2

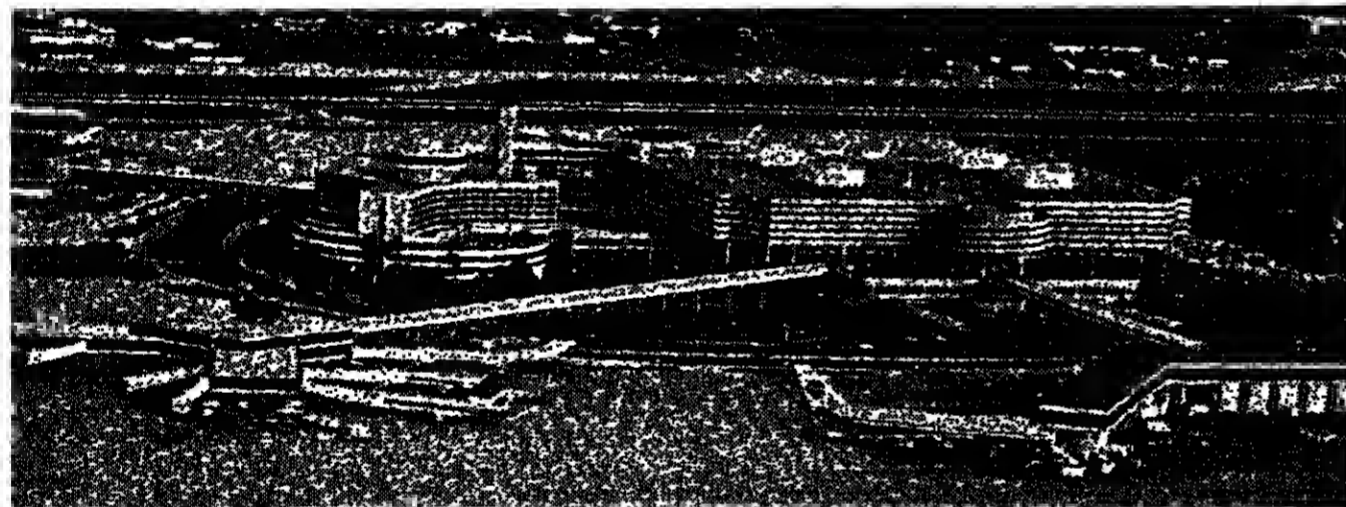
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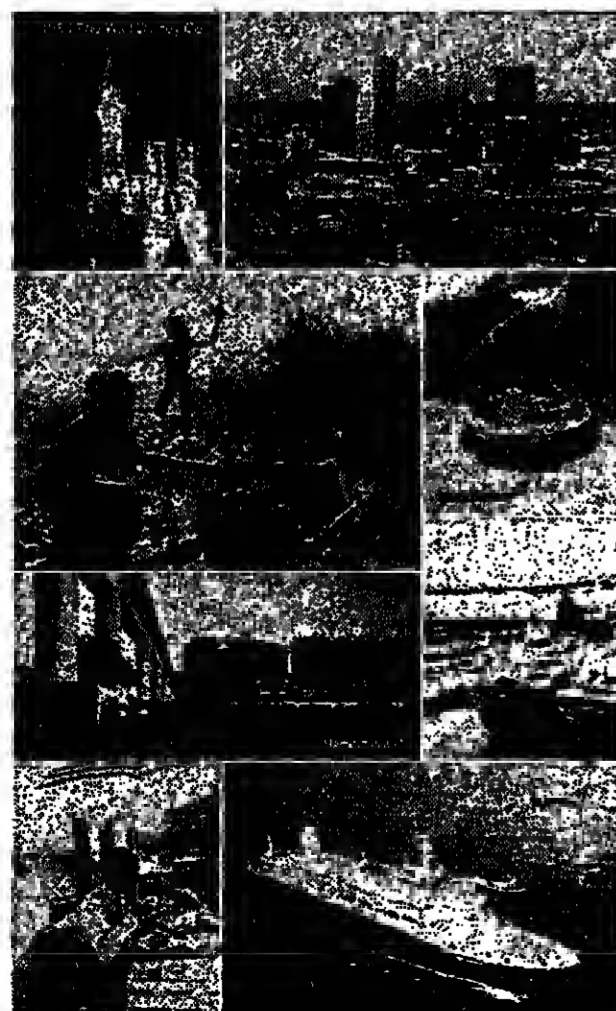


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Florida's largest banks

First six months 1986 earnings (\$m)

| | Assets | 6 months 1986 net income | % change on year | Provision for loan losses | Non-performing loans | As % of total loans | Return on equity | Return on assets | Branches | Employees |
|------------------------|----------|--------------------------|------------------|---------------------------|----------------------|---------------------|------------------|------------------|----------|-----------|
| Suntrust Banks | 18,827.1 | 102.7 | +14.4 | 44.4 | 120.5 | 1.09 | 18.71 | 1.12 | 483 | 15,873 |
| Barnett Banks | 16,122.5 | 74.3 | +24.0 | 38.1 | 114.8 | 1.10 | 17.53 | 0.97 | 381 | 15,090 |
| Southeast Banking | 10,774.0 | 48.5 | +51.9 | 27.5 | 297.5 | 2.63 | 14.73 | 0.76 | 162 | 6,928 |
| Florida National Banks | 6,244.7 | 27.2 | -56.0 | 14.1 | 148.4 | 3.33 | 12.46 | 0.59 | 170 | 4,683 |
| First Florida Banks | 4,207.9 | 22.6 | +6.0 | 5.7 | 25.5 | 1.00 | 16.00 | 1.15 | 132 | 5,208 |

Research: Rivka Nachson.

Banking

Widespread battle for market share

FLORIDA IS richly served by financial institutions. There are close to 400 commercial banks, with 2,400 branches competing for \$70bn in deposits and a whole raft of local savings banks which control another \$70bn of deposits.

This is more than the combined deposits of the next three biggest neighbouring states—Virginia, Georgia and North Carolina. Florida's rapid growth, and increasingly diversified economy, has made it one of the most attractive banking markets in the US with small one-office institutions battling for market share alongside established out-of-state banking giants as Citicorp and Chemical Bank.

Ten years ago Florida was a highly fragmented banking market. Sun was the biggest bank with 9.5 per cent market share, followed by Barnett with 7.9 per cent, Sun, 6.1 per cent, Flagship with 5.8 per cent and the rest with 65 per cent. Since then Sun has acquired Flagship and merged with Trust Company of Georgia.

Its market share has more than doubled since, to 12.7 per cent, while Barnett's share has risen to 17.7 per cent and Southeast's share has risen to 10.9 per cent. NCI, from the neighbouring state of North Carolina,

has become a major force in the local market and the share of the smaller banks has slipped to 44 per cent.

All of the state's biggest banks emphasise their Florida connections. The Jacksonville-based Barnett Banks, advertises itself as "Florida's Bank" and Miami's Southeast Bank bills itself as "Banking on Florida's future". The Jacksonville-based Florida National Banks reminds its customers that "Florida is our middle name," while the Tampa-based First Florida Banks refers to itself as "Florida's namesake."

Florida is easily the most important southeastern state and its local bankers do not miss an opportunity to remind newcomers that it will soon be the third biggest state in the union and its population expected to grow by 5m between 1982 and the year 2000. Over the last three years its population has been growing at three times the national average and there is no obvious reason why this growth should stop.

Southeast Bank says that more than 1,000 people a day move to Florida, enough to create a city the size of Tampa once a year. Of the 20 fastest growing metropolitan areas in the region, 18 are in the state

and employment growth, a key measure of the strength of any local economy, is growing twice as fast as the national average.

In this sort of banking market it would be surprising if the local banks were not making handsome profits. Barnett Banks, the state's biggest bank and the fifth biggest in the southeast, has increased its earnings by 22 per cent in the first nine months of 1986 and says that its long-term target is to increase earnings by between 12 and 18 per cent a year.

Southeast Banking Corporation, which used to be the biggest banking group in the state and is recovering after a rather rough patch, boosted its third quarter net income by 22 per cent and increased its loans by 10 per cent.

The heady growth rates of Florida's local banks has not escaped Wall Street's attention and the shares of most of the major institutions are accorded a premier rating as long-term growth stocks.

Barnett Banks is definitely the stock favourite. Its shares stand at more than twice book value, yield 2.3 per cent and sell on a multiple of over 12 times historic earnings. This rating is probably the best of the major south-eastern banks and compares with the rating of a well run money centre bank such as Citicorp, whose shares are selling at roughly book value, yielding 4.9 per cent and selling at 7.2 times earnings.

Barnett has stood out among the regional south-eastern banks by remaining aloof from the rash of inter-state banking mergers which has swept the region over the last 18 months, and has stressed its Florida roots. The group says that "an interstate merger is not precluded but it must be as

attractive as opportunities available within Florida."

This is not to say that Barnett is nervous about getting involved in mergers. Local acquisitions have played a key role in its rapid expansion over the last decade and it is in the process of trying to acquire two Florida savings institutions, which will tighten its grip in several key markets.

Barnett expects to be able to boost its assets from their current level of about \$16bn to \$30bn by 1990 by staying within the state. Its strategy contrasts with that of Orlando's Sun Banks which merged with the Trust Bank of Georgia in mid-1985. Suntrust banks has leapfrogged Barnett to become the third-biggest banking group in the south-east and stresses the importance of the Florida/Georgia marketplace, which should boast 24m people by the end of the century, making it second only in size to California.

Southeast Bank, which describes itself as Florida's premier bank, has flirted with the idea of merging with an out-of-state bank and even considered combining with Barnett, which would create the biggest group in the region. However, nothing has developed to date and Southeast is concentrating on its Florida home market for the time being.

The same goes for the two smaller groups, Florida National Banks and First Florida. The former has done a deal under which it has agreed to be taken over by New York's Chemical Bank if and when the law allows. First Florida remains independent, profitable and well-managed but could fall prey to a predator prepared to pay a handsome premium to its current \$30 a share price.

William Hall

Politics

Balance changed by immigration

FLORIDA'S RAPID population growth is leading to profound changes in the state's political as well as economic character.

The traditional hold of the Democrat party over state and local politics is being steadily weakened by the phenomenal rate of immigration.

Put quite simply, more of the 1,000 new arrivals entering the state each day vote Republican than Democrat. Over the past nine years, the Republicans have gained 13 percentage points at the expense of the Democrats among voters identifying themselves as one party or another, according to Miss Anne Kelly, an associate professor of political science at the University of South Florida in Tampa.

Official state figures show that of the 5m voters registered in 1984, 3.2m were registered Democrats and 1.7m Republicans. But given the large number of unregistered voters, a better indication of the state's political make-up can be seen from a 1985 survey carried out by Florida State University. It found that 55 per cent of those polled regarded themselves as Democrats, 35 per cent as Republicans and 10 per cent as independents.

This compared with a similar survey by the university in 1980, when 45 per cent of those polled said they were Democrats. The increase is due to the influx of new voters from a number of sources.

The more recent newcomers have tended to be wealthier and more conservative and there has been a noticeable rise in the number of retired servicemen and women moving into the state. A larger number of people in the 25-44 age range (the fastest-growing age group) are moving in, making Florida the state with the fastest-growing population.

In addition, Florida's youth is coming of age during the strong resurgence in national pride identified with the Republican party under Mr Reagan.

The state's Democrats were so used to their predominant role that a unified state organization was formed only in 1970 in response to Republican inroads during the 1960s.

Their traditional sectors of support, including blue collar workers and blacks, have not been growing at a rate sufficient to offset the Republican advance.

A gradual realignment appears to be taking place within the political parties. Conservative Democrats are moving to the Republican ranks. Although some Republicans are moving the other way, most of the state is at the expense of the Democrats.

The first broadside made by Republicans came in when counties receiving large numbers of migrants from the north. These advances were consolidated in the 1960s with the adoption of single-member districts, designed to give minority groups, like Hispanics and blacks, a direct representation in the state legislature, and giving urban areas a better balance with rural districts.

Nevertheless, Florida has continued to return a majority of Democrats to state and local office — until the November 4 election, only one Republican has been elected governor this century, Claude Kirk in the late 1960s.

The state has however continued to vote consistently for Republican candidates in presidential elections since 1948, with only two exceptions, Lyndon Johnson in 1964 and Jimmy Carter from neighbouring Georgia in 1976.

Miss Kelly believes it will be five to ten years before the cumulative effects of the changes now taking place seriously affect the Democrats' control over state and local politics.

The growth of Florida as a state of exiles has played an important part in changing the style and content of the state's political debate.

Up to 80 per cent of the population was born outside the state and 90 per cent has moved in within the last ten years.

The ideological conservatism of Democrat candidates has tended to make them largely indistinguishable from their Republican opponents and voters have decided on the basis of tone and presentation rather than on issues or party allegiance. Candidates have found it hard to establish an identity for themselves that would allow voters to differentiate without regarding as extreme.

The problem has been compounded by the absence of a single dominant centre in the state. There are a number of centres each with its own concerns and problems — Miami, with its recent history of drug-related crime; Orlando, the tourist haven; Jacksonville, now styling itself Florida's business city; and Tampa, billing itself as America's next great city, not to mention Tallahassee, the state capital, extending all the sleepy charms of the Old South.

No one newspaper or television station has emerged either with sufficient authority to speak for the state.

A split is emerging between elderly Floridians (15 per cent of the population is over 65, compared with 11 per cent nationally) and the new younger migrants, whose need for better infrastructure is greater, over how the money to fund improvements in infrastructure is to be raised and who should pay.

The issue does not only affect Florida. Mr James Naisbitt, the economic forecaster, argued in his bestseller Megatrends that since Florida's age structure today resembles closely the pattern expected nationally by 1996, the way that the state settles its internal conflicts will be a pointer to the future for the nation as a whole.

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High technology

Growth pinned on key industry

HIGH TECHNOLOGY has rapidly become one of the key industries on which Florida is pinning its future growth.

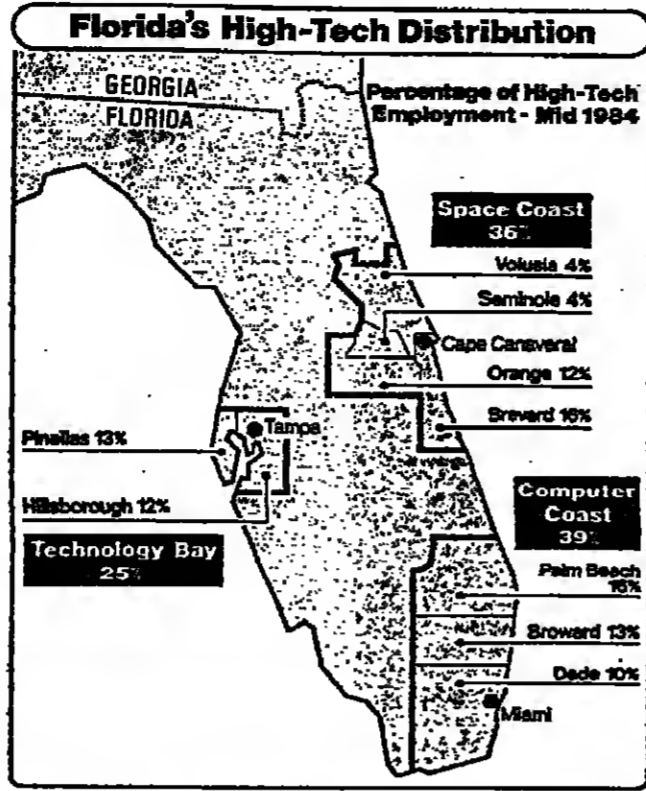
The state already leads its southern US neighbours in the size of the industry by a wide margin and ranks seventh largest in the nation. According to a new report published by the University of Miami, Florida has the potential to become the fourth-largest high-tech state behind California, Massachusetts and Texas by 1995.

The reasons for the industry's rapid expansion lie largely in the presence of the Kennedy Space Centre, the heavy build-up in defence spending under the Reagan Administration and the development of the growing biomedical sector.

The state's high-tech industry is located in three distinct geographic regions. These are identified as the "Space Coast" in east central Florida, stretching from Daytona Beach in the north to Melbourne and reaching inland as far as Orlando; the "Computer Coast" running from Miami north to West Palm Beach; and "Technology Bay" covering the Tampa Bay and St Petersburg area.

Of these, the Space Coast, with its heavy preponderance of defence and space-related companies manufacturing missiles, satellites, computers and military communications equipment, is growing fastest. Employment here has been expanding at an annual rate of 12 per cent for the past 10 years. Some 36 per cent of Florida's 149,000 high-tech workforce and 20 per cent of its 1,614 companies in 1984 were located in the region.

More than 90 per cent of the state's missile and space industry is housed in this "magic triangle," including Harris Corp, Florida's largest manufacturing employer which has 11,000 of its 14,000 employees in the region; McDonnell Douglas, which employs 2,000 at its missile plant in Titusville; Martin Marietta, which employs 12,780 at its Orlando plant manufacturing defence systems for missiles and aircraft; Rockwell International's Collins division at Melbourne, employing 800 in the manufacture of communica-



tions and flight control systems; and ITT which employs 400 at its Cape Canaveral plant.

In addition, Lockheed, McDonnell Douglas, Grumman, United Technologies and Pan Am all have subsidiaries linked to service of the Space Shuttle fleet at the Kennedy Space Centre.

The Computer Coast accounts for 39 per cent of Florida's high-tech employment. Chief among the products manufactured are personal computers—IBM has an 8,000-strong workforce at its Boca Raton plant—medical and bio-medical equipment, such as pacemakers, and semiconductor.

The industry has felt the worldwide slump in electronics most keenly here and workers at Burroughs, Racal-Milgo, RCA and Paradyne have fallen victim to hiring freezes, layoffs and even plant closures.

Mr William Cullom, president of the Greater Miami Chamber of Commerce, is confident that continuing strong demand for medical and bio-medical equipment from the growing number of medical centres and hospitals in the Miami area will boost the flagging industry. He notes the importance of the Florida International University as a centre in encouraging research and joint projects with industry.

The University of South Florida is hoping to play a similar role in attracting high-tech companies to the Technology Bay area around Tampa, where 25 per cent of the state's high-tech employment is located. The main products manufactured here include defence electronics and avionics, telecommunications equipment and computers. Several well-known companies such as General Electric, Sperry, Honeywell and E-Systems are major employers in the area.

Despite the slump in the market for computers and semiconductors, most analysts agree that the outlook for the industry statewide looks promising. The generators of future growth will continue to be those of the past: the space programme and the defence industry.

The space programme is set to resume in February 1988 with the first Space Shuttle launch since the loss of Challenger in January this year. The US also plans to launch its first manned space station in 1992 to be built by Nasa and a consortium of British, Japanese and Canadian companies.

Nasa's involvement could run as high as \$8bn. "A lot of that work would have to come to this area," says Mr Hank Taylor of the Cocoa Beach Chamber of Commerce.

He sees exciting possibilities too in the growing interest in commercialisation of space. A recent report by the independent Paine Commission concluded that US companies may spend anything up to \$60bn on such projects by the year 2000.

"They have to come here," Mr Taylor insists. "Kennedy (Space Centre) is the launch point. They do not have anywhere else to go. The biggest challenge is going to be to find a place for all the companies to be located," he added.

In the nearer term, the resumption of Space Shuttle flights should lead to a pick-up in activity at the Space Centre by next summer, Mr Taylor says. Mr Dick Young, Nasa spokesman, says that 2,200 of the 16,000 workforce had been laid off since the disaster.

From a purely commercial viewpoint, the Challenger accident had at worst caused an "unfortunate hiccup" in the

Foreign investment

Arrivals from Europe and Japan

FLORIDA'S geographic location and well-developed communications links make it an obvious base for companies doing business with Latin America and the Caribbean. But the state is also being seen increasingly as a place for companies to serve the US market or to base their US operations.

In mid-1985, there were about 330 foreign companies from 31 countries operating in Florida, according to the state's Department of Commerce.

They are predominantly grouped in three sectors: manufacturing (42 per cent); finance, insurance and real estate (19 per cent); and retail trade (14 per cent). Other activities include transport and communications services and wholesale trade and construction.

Foreign companies employ more than 39,000 people, accounting for just under 1 per cent of total Florida employment.

Mr Michael Alesanter of the Florida Department of Commerce expects to see 19 new European and seven new Japanese companies set up operations in the state this year.

New arrivals have been running at the rate of 10 to 15 companies a year from Europe and about five from Japan for the past eight years, he says.

"We're seeing more interest now than this time last year," Mr Tom Slattery of the State Commerce Department says. "The value of the dollar obviously has something to do with that."

Mr Slattery says that companies in Latin American countries such as Venezuela and Peru had shown interest in setting up manufacturing facilities in Florida and that more inquiries are being received from Far East countries such as Taiwan and South Korea. These, he says, are potential growth areas.

"We are not just selling Florida as a place to do business with Latin America but as a good spot to do business with the US, especially the East Coast," he explains.

Apart from those countries that "cannot afford to stay out," principally those doing business with Latin America but as Caribbean, foreign companies are attracted to Florida for precisely the same reasons as domestic ones, Mr Alesanter says.

Florida's rapid population growth is creating an expanding and wealthier market. The state has low taxes (there is no state income tax) and the highest per capita disposable income in the south-eastern US. Wage levels are modest (17 per cent below the national average in 1984) and the state's right to work laws have limited union representation to about 10 per cent of the workforce.

Education facilities, a key concern among employees in companies considering relocation, have been improved. Miami, for example, now offers multilingual courses to ensure that children of employees from foreign companies do not fall behind.

The state's commerce department has no estimate of the total value of foreign investment in Florida. However, the UK is the leading investor, as it is in the US as a whole. At the last count there were about 56 British companies operating in the state, including Chloride Davy McKee, Glaxo—whose Latin American regional headquarters is in Fort Lauderdale—ICI, Lloyds Bank (the biggest foreign bank in Florida), Plessey, Racal, Rolls-Royce, Smiths Industries, Tate and Lyle and Taylor Woodrow.

West Germany is the second largest foreign investor ahead of Japan and Spain.

Miami, with its huge airport, expanding port and rapid emergence as a major international finance centre, is the key to trading with Latin America and the Caribbean.

The city has rapidly become a transshipment hub where containerised cargo is unloaded, split and re-packed for on-shipment to the Caribbean and Latin America. Mr Wade

International finance

Tax and banking laws an asset

THE RAPID development of Miami as an international financial centre is rooted in the city's close trading and cultural links with Latin America.

Miami is now second only to New York in the number of banks doing international business. At the last count, there were 48 foreign banks and 27 Edge Act banks—international subsidiaries of US out-of-state banks—operating there.

Total offshore funds held by the foreign and Edge banks in Miami are estimated at \$15bn, an increase of about 50 per cent in the past two years, according to Mr Denis Nason, head of the Credit Suisse operation.

Foreign banks include Lloyds, Barclays, Bank of Tokyo, Banque Nationale de Paris, Banca do Brasil, Marine Midland, Royal Bank of Canada, Deutsch Sudamerikanische, and Credit Suisse.

Proximity to Latin America, excellent transport and communications links and a large Hispanic community made Miami an obvious place for rich Latin Americans to visit for pleasure or business. As the oil boom of the 1970s took off in countries like Venezuela, investment in Miami boomed.

It also owes much of its role as an international financial centre to Florida's advantageous state tax and banking laws.

The nature of foreign bank operations in Miami has changed sharply since the Latin American debt crisis came to a head in the early 1980s, according to Mr Nigel Simpson, head of Lloyds Bank's office there.

Some banks were forced to pull out but those that remained focused their attention on personal deposit-taking from high net worth customers and on developing a domestic base in the US corporate market. The Lloyds Miami office is the regional base for serving the south-eastern US.

But in the past two years renewed fears of political instability and continual devaluations in many Latin American countries have led to an increase in numbers of companies and individuals seeking to move their assets to safer havens. The same uncertainty has triggered a move by US banks to shift offshore funds held in centres like Panama and the Bahamas to Miami.

Mr Simpson sees growing sophistication among new Latin American clients who have a wider knowledge of the type of financial services available on the market and are seeking a better balance in their portfolios than investment in a single asset like real estate.

This trend is increasing competition among banks to introduce newer and more elaborate services and to an increase in the numbers of investment bankers setting up offices in Miami.

But Mr Nason sees market growth slowing down as a result of the sharp switch to interstate banking at a regional and national level in the US. Some of the advantages of Edge Act banking are being lost.



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Transport

Heart of an international trading centre

FLORIDA's extensive transport network has been a major factor in the speed with which the state has emerged as an international trading centre. At the hub of this network, which includes 134 public airports and 14 deepwater ports, is Miami. The city's international airport is the second largest in the US in both passenger and freight traffic after New York's Kennedy airport. Last year it handled 20m passengers, a 2.7 per cent increase on 1984, and 510,000 tons of freight, 0.3 per cent down. Domestic passengers presently outnumber international passengers by about two to one.

More airlines serve Miami than any other airport. At present 83 carriers, about half of them foreign, are based there. This year the airport opened an international container freight station designed to boost its share of the container market. The 45,000 sq ft facility, the first of its kind in the US, is modelled on freight handling techniques used in London and Paris. It allows containerised shipments to be unloaded, split and reassembled on one site for reshipment. Warehousing space is also available.

The airport has also inaugurated the Miami International Cargo System, a computerised cargo tracking system that automatically logs the flow of all shipments through Miami and enables government inspectors and shippers to process goods faster. It gives instantaneous retrieval of waybills, manifests and other documents.

The airport, which made a profit of \$35.5m last year, plans to spend \$100m over the next ten years expanding capacity, according to Mr Amaury Zurbaran, airport spokesman. It ex-

pects to be handling up to 40m passengers and 1.3m tons of freight annually by the end of the century.

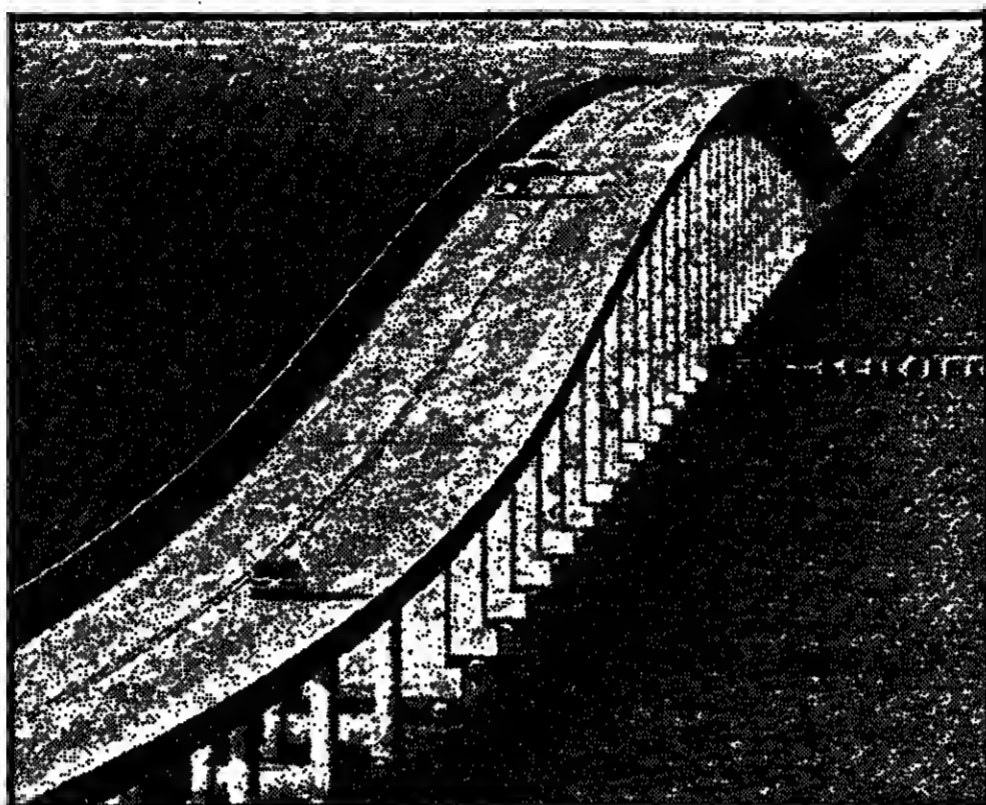
But more important than passenger figures, says Mr Richard Fudy, airport director, is to ensure that the airport's resources are being put to the best use of the community. It presently employs 72,000 people directly or indirectly and contributes over \$6bn to the state's economy.

The port of Miami, already the undisputed cruise capital of the world, is also planning expansion. In addition to three new cruise terminals, the port recently brought into service the fourth in up to eight planned 40 tonne gantry cranes at its growing container facility.

The port handled 2.3m tons of cargo in 1985, nearly 2 per cent up on 1984. Mr Wade Battles, marketing manager, says the improvement reflected a "settling down" of the economies of key Latin American trading partners.

He says the port, which made a profit of \$17.1m last year, will be looking for an increase of between 4 and 6 per cent in cargo next year. It too will eventually be linked into the Miami International Cargo System.

The state's other main airports are also planning expansion to cope with an expected increase in passenger traffic. Tampa, voted best airport in the world by *Harper's* magazine, currently handles 8m passengers a year. It is served by 26 airlines and recently opened a new facility for international airlines. Mr Larry Grossman of the Tampa Chamber of Commerce says the airport was built with a 50 per cent expansion capability.



The spectacular Overseas Highway, which links Florida's mainland with Key West via the Florida Keys. Driving time for the 159 miles, after extensive rebuilding work, is now three and a half hours

Orlando Airport, which handles about half the tourists heading for Disney World, handles 10m passengers a year. It is served by 24 domestic and four international airlines. Jacksonville Airport handled 2.7m passengers last year, a 16 per cent increase on 1984.

Among the ports, Tampa, traditionally a bulk shipper of phosphate—Florida produces a third of the world's supply—and agricultural products, is diversifying into the cruise passenger and container markets. Port Everglades, near Fort Lauderdale, is one of the

managing director.

About 35,000 workers are employed directly or indirectly by the port and its payroll of \$200m is estimated by the local Chamber of Commerce to generate sales of \$821m.

Jacksonville is also at the hub of three main rail lines. Florida has an extensive rail network served by seven freight railroads and linked to major routes to the US West Coast and industrial centres in the Northeast and Great Lakes.

There are also ambitious plans for a high-speed rail link between Tampa, Orlando and Miami by 1995. Calls for tender are out and Canadian, Japanese and French companies are understood to be studying the project. Mr Richard Stasiak, of the state transport department, says Florida stands a better chance than most US states of getting a high-speed link built because of the developing commercial activity around the state's rail centres.

Florida's road network is being put under strain by the increasing congestion caused by rapid population and economic growth. About 40 per cent of the highway network has severe bottlenecks, according to Mr Stasiak.

Removing them will be a priority, but even to reduce the problem by half will cost an estimated \$5.5bn. How much of the work gets done depends on whether new revenues are raised, he says.

Extensions of existing major routes is already under way including the extension of an interstate highway across the Everglades. The current two-lane toll road "Alligator Alley" will be replaced by four high-speed lanes.

Property

Problems of over-supply

MR ALAN PARKS recalls wistfully the busy times of 1982 when he counted 27 cranes silhouetted against the Miami skyline. Today, Mr Parks, vice-president for marketing at the Adler development group, counts only three.

Florida's office property market is experiencing a weakness common to many other parts of the country and resulting from an explosion of construction two to three years ago.

Oversupply is facing all the state's major business centres, although to different degrees. In Miami, the second largest office market in the south-east US after Atlanta, with more than 22.7m sq ft of space in existence and a further 3.2m under construction, the vacancy rate is 22.1 per cent—between three and five years supply.

In the downtown area, centred on Brickell Avenue, the vacancy rate is about 24.8 per cent, compared with a 16.5 per cent national average, according to Coldwell Banker, the real estate broker.

In the Tampa-St Petersburg-Clearwater area on the Gulf Coast, the market has expanded rapidly to 19.5m sq feet and the vacancy rate is currently 25.5 per cent. In Orlando, with 12.3m sq feet and an additional 3.2m under construction or planned, the vacancy rate is 28.3 per cent.

Jacksonville, with 9.6m sq ft of space, has the lowest vacancy rate in the state at 16.6 per cent, Coldwell Banker says.

The high vacancy levels have forced developers to offer tenants attractive lease concessions with the result that effective rents are between 20 and 25 per cent below asking prices, according to Mr Harry Tangalakis, Coldwell's senior sales manager in Miami.

But despite the current glut, Florida's rapid expansion is leaving developers optimistic about the future rates of absorption. The city is being "rediscovered" by major investors and companies after suffering for years from a serious image problem. Developments are under way to make the downtown area more attractive after office hours.

Rouse, the developer of Boston's Faneuil Park and New York's South Street Seaport, is building a \$93m shopping and restaurant complex, known as BaySide.

Jacksonville is looking to revitalise its downtown area too with a similar project also designed by Rouse. The \$38m 125,000 sq ft Jacksonville Landmark will house a "festival market" of shops and restaurants.

Oversupply of office space is not always bad news, particularly in a city like Jacksonville, which is working hard to attract new companies and investment. It's a bit of a vicious circle, says Rebecca Kinney, manager of economic development at Jacksonville Chamber of Commerce. "If you want to attract corporate relocations, you have to have the space available."

But the office glut is leading to "major changes" in developers' attitudes, Mr Tangalakis says. "There's been a lot of speculation. Now you're going to see less. Developers are going to wait for the market to dictate."

Mr Larry Grossman, research manager at the Greater Tampa Chamber of Commerce, agrees: "They (developers) have learned a lesson—you cannot build one 200,000 sq ft building across the street from another."

Developers are now being "cautious and selective." "Everybody's looking for a window in the market," he says.

This new caution is being compounded by the US tax reform legislation, which became law last month. It limits to two the number of residential properties on which mortgage interest relief can be claimed. The new code also extends sharply the depreciation life over which losses on commercial property can be written off and clamps down on passive losses on syndicated property.

The effects are already being felt. "We are starting to see a lot more people looking to sell their properties," Mr Tangalakis says. "Part of the reason is to take advantage of capital gains provisions that will not be available next year."

The impact is being felt in the condominium market, already a victim of the sell-out by Latin American investors following the region's debt problems. One real estate agent reported that condominiums were selling at less than their early 1980s price as a result of the number of investors seeking to liquidate their assets.

The effects are being heightened by the surge in apartment building just before the tax reform Bill.

"About 80 per cent of all new multi-family building was for tax reasons, not need," says Mr Brian Smith, public relations director of the Northeast Florida Builders Association in Jacksonville. "People saw the tax bill coming but did not anticipate the clampdown on investment."

With real estate no longer being the favoured shelter it once was, some analysts are predicting a shakeout in the office and commercial sector similar to that which hit Florida's market in the mid-1970s.

"We are in the process of a major price readjustment downwards," says Mr Henry Fishkind of MG Lewis Economometrics in Winter Park. "A lot of projects with high leverage are going to go bankrupt and some financial institutions could sink under the weight."

But Mr Tangalakis believes that Florida's population and economic growth rate will shield the market. "There's been a lot of speculation, but a lot of it is being absorbed. I definitely do not see any gloom in the forecast," he says.

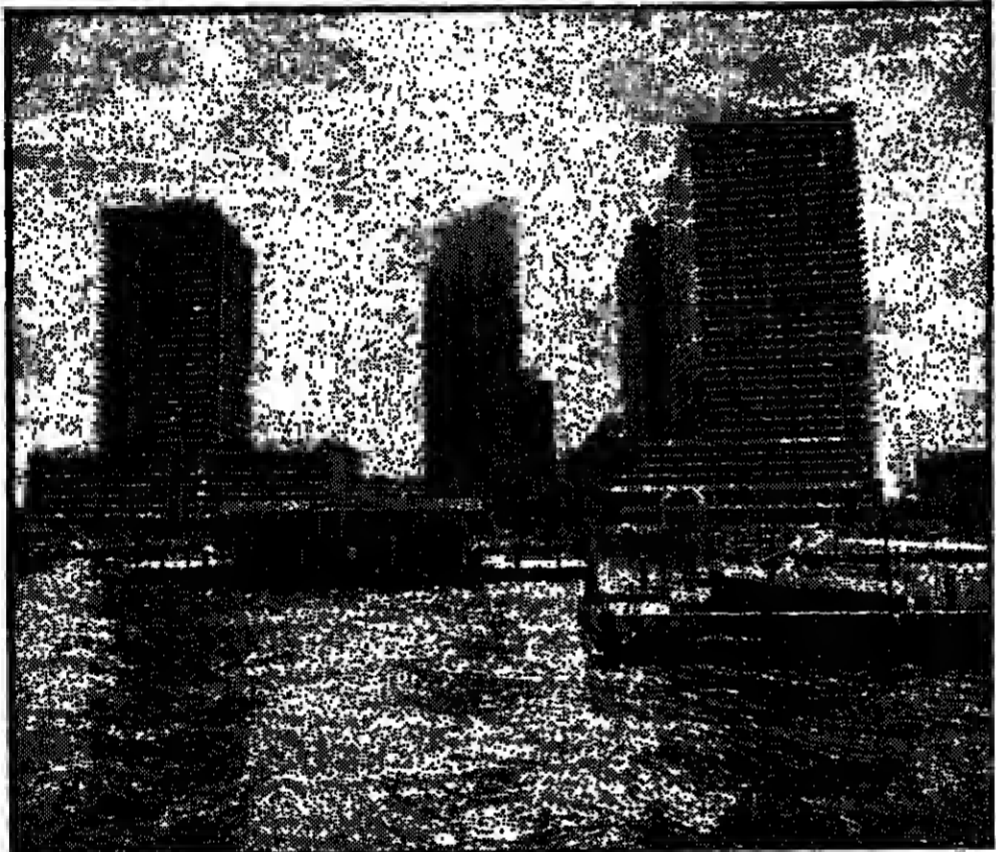
The one bright spot in the property market is the single-family home sector. Declining interest rates have made it easier for families to afford detached houses, according to Mr Smith.

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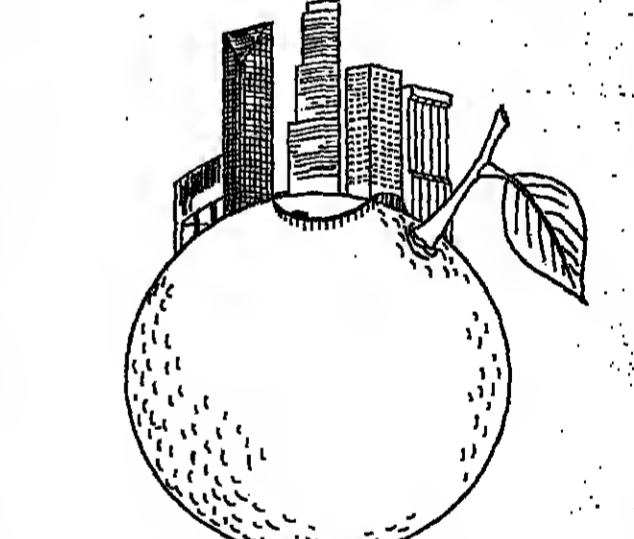
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Tourism

Plans for more hotel rooms

IF FLORIDA owes its living as a tourist centre to anyone other than the Creator, it must be to two turn-of-the-century railroad barons and the creator of a veteran cartoon mouse.

It was Henry Flagler and Henry Plant, the two hotel and railroad magnates, who were responsible for opening the state's first luxury hotels, Flagler at St Augustine on Florida's east coast in 1885 and Plant at Tampa Bay on the Gulf coast in 1881.

Flagler eventually pushed his railroad all the way south to Key West in 1912, passing on the way at Palm Beach to open the historic Breakers Hotel and at Miami.

But while these two pioneers paved the way for the land boom of the 1920s that began the development of modern Florida, it was Walt Disney and a cast of cartoon thousands, who has prevented Florida becoming just another place in the sun.

About 80m tourists come to Florida each year, according to Rene Welch, assistant director of tourism at the Florida Department of Commerce. They spend about \$20bn a year.

Almost half of the total will visit Disney World, a 28,000-acre site 20 miles south-west of Orlando. The theme park is one of the top tourist attractions in the world, receiving some 20m visitors a year.

Disney World has 17,000 permanent employees. In addition to the original theme park it now boasts the Epcot exhibition and conference centre, a new 900-room hotel and Pleasure Island, a night-time entertainment complex featuring six "theme" nightclubs.

In the 15 years since Disney World opened, it claims to have attracted 130m visitors to the Orlando area, spending an estimated \$33bn.

His presence encouraged the opening of new tourist sites like the Sea World complex and the expansion of existing facilities such as Gatorland and the Cypress Gardens.

More importantly, it has sparked an explosion in hotel construction in the Orlando area. From 5,920 rooms in mostly small hotels and motels in 1970, Orlando now has 55,000 rooms, many in luxury convention centres, and stands third behind New York and Los Angeles in the number of rooms in a single metropolitan area.

Plans are under way to provide a further 25,000 hotel rooms. The pulling power of Disney World encouraged Orlando to launch a major drive to capture a share of the lucrative convention market.

Last year, 665,000 delegates attended 1,778 conventions and spent an estimated \$315m. Passenger traffic at the \$30m international airport is running at 10m a year, with 25 domestic and four international airlines flying regular schedules.

Since 1971, Metropolitan Orlando's population has almost doubled to about 900,000. Employment has risen from 196,000 in 1970 to 531,900 this year.

Orlando's success in attracting convention visitors has spurred Miami into a similar drive. The city, Florida's second biggest tourist area, has seen its \$4.5bn share of the market threatened by its reputation for drugs and crime, but is now working hard to clean up its image.

Greater Miami draws about 6m tourists a year. Its port claims to be the cruise capital of the world. More than 2.3m passengers sailed from the port last year and Mr Wade Bettles, general manager of marketing, says that in the first 11 months of the 1985-86 fiscal year, passenger traffic was up by 9.1 per cent.

The port is home base for 20 vessels operated by eight cruise lines offering a variety of one to 14-day packages mostly in the Caribbean. To meet plans by the cruise lines for six new vessels with a total of 15,000 berths, the port plans three new cruise terminals and is gearing up to handle 4m cruise passengers a year by the end of the century.



Catamaran sailing off Florida's north-west coast

Miami hopes to encourage more of these passengers to stop over longer in the city. Most now fly in on the night before departure and leave the day after the cruise ship docks.

A \$93m Bayside complex is being built in the downtown area close to the port by the Rouse company, which developed the South Street Seaport in New York.

The project will house 180 shops, restaurants and pavilions and is designed to give an anticipated 15m visitors a year some flavour of Miami's ethnic diversity.

Tampa on the West coast is also hoping to attract more visitors. About 3m a year come to enjoy the white sands of the

Pinellas suncoast and spend upwards of \$1.6bn. Pinellas county has 20,000 hotel and motel rooms and Hillsborough 12,000. Local officials hope to attract tourists who will stay in the area and take advantage of its beaches, while visiting Disney World, only about an hour and a half along the freeway.

Mr Welch says that all Florida's traditional tourist regions appear to be experiencing growth this year. "We are up about 9.8 per cent across the board, in the first six months," he said.

On the left coast the Fort Myers area is looking particularly promising with new hotels coming on stream and an improved air service. At the

other end of the state in the so-called Panhandle, the Redneck Riviera which has traditionally drawn visitors from neighbouring southern states is also showing "significant growth," Mr Welch said.

New hotels have opened, including one owned by Marriott in Panama City. The combination of a weak dollar and persistent fears among Americans of terrorism abroad have meant a lot more Americans are spending their vacations in the US. But the decline of traditional industries is forcing other states to fall back on their natural resources and encourage tourists, leading to hotter competition, Mr Welch says.

Force behind city's international role

Profile: Xavier Suarez, Mayor of Miami

TO WANT to become mayor of a city with as unenviable a recent reputation as that of Miami might seem more than a shade masochistic. But Mr Xavier Suarez, the 37-year-old Cuban American who celebrates his first year in office this week, clearly loves his job.

"This is the end of the rainbow for me," he says, without a trace of irony. Mr Suarez eagerly leads visitors out on to the waterfront terrace of his City Hall Office in the fashionable Coconut Grove suburb, to show off the view.

Ahead, across the deep blue expanse of Biscayne Bay, lies the downtown business district, dominated by a clutch of gleaming skyscrapers, to the left a flotilla of pleasure craft bob in the palm-fringed marina; to the right stretches the lush, green "island paradise" of Key Biscayne.

"This is one of the most beautiful cities in the world," the Harvard-educated lawyer boasts. "There's no urban setting in the world that has this kind of pristine atmosphere."

The view is certainly beautiful but pristine "is probably the last adjective that most would associate with a city that for years simmered with racial tension and where "cocaine cowboys" fought running gunbattles in the streets.

But now a noticeable change is under way. Miami is working hard on a city clean up. A tough police clampdown on street sales of drugs and on soliciting has brought a reduction in rates of most serious crime with the exception of murder. Most serious crime remains drug-related however.

"We still have a bit of an image problem," the mayor concedes. "But we have maybe learned to sell ourselves better." Visitors to his city now tell him how attractive Miami is, he says. "That was not so a few months ago." Drugs and crime are not now the first subjects to be raised.

He does not claim credit for the improvement, which he insists had begun during the final months in office of his predecessor, the charismatic Puerto Rican Mr Maurice Ferre, but it has certainly become more noticeable during this year in office.

Mr Suarez, whose family emigrated to the US in 1961, does, however, claim credit for bringing the city's Hispanic, black and "Anglo" communities closer together.

His election as the first Cuban-born mayor of the city at the heart of a county in which half the 3m population is Hispanic, has helped accelerate the gradual absorption of the predominant Cuban community into the political mainstream.

For years the Cubans, most of whom were well-to-do refugees from the Castro regime, regarded Miami as a temporary, pending a swift overthrow of communism in Cuba.

Even after the failed US-backed Bay of Pigs invasion of 1961, the vast majority of Cubans continued to live a dual life — "immigrant" by day in well-paid middle-class jobs and "exile" by night, teaching their American-born children Spanish and investing large

amounts of time and money in fruitless plots to overthrow Castro.

Despite their self-imposed political isolation, the Cubans' economic influence spread rapidly, transforming Miami into a Latin city and a natural magnet for trade and investment with Latin America.

As a new generation of Cuban-Americans came of age, they sought to match their economic influence with a greater degree of control over the government of the city.

Non-Hispanic whites, at first resentful of the emerging Latin dominance (voters passed a law in 1959 forbidding the use of any language other than English in official business), gradually realised that the Hispanics were there to stay and quickly moved to take full advantage of Miami as a bilingual business and financial centre.

Mr Suarez, who had to relearn Spanish when he moved to Miami from Washington in 1975, was at first sceptical of the city's pretensions to an international role. But his stance — which earned him stiff opposition from the business community in the mayoral elections — changed immediately he took office.

Contact with Caribbean and Latin American leaders and with officials at the 43 consulates located in Miami has convinced him that the city is not just "the gateway to America" or even "the capital of Latin America," but a "crossroads for Europe, Asia and Africa" to meet the Americas.

Despite constantly pressing this international role for the city, Mr Suarez regards himself as a "nuts and bolts man, not a visionary" and a "people's mayor" who spends much of his time on the streets "putting Miami on an even keel, getting things going to get along with everyone else, making them believe in Miami."

"Miami is a young city. We have a lot of people trying to work themselves into positions of power and of influence," Mr Suarez says. "I think it is a great opportunity to use that dynamism, whether it be the Chamber of Commerce, the Cuban-American National Foundation or some of the young black entrepreneurs."

While he has reached an uneasy working relationship with the business community, Mr Suarez faces a far tougher task in seeking to bring poorer Hispanics and blacks into the economic mainstream.

Youth unemployment among blacks is running at 40-50 per cent, and while this is certainly not untypical of large American cities, the resentment and alienation of Miami's blacks, forced to watch the rapid advance of the Cubans and Anglos creating such visible wealth around them, still lingers just beneath the surface. The memory of the last time that resentment exploded, in rioting in 1980, is too close for comfort.

Miami is a young city that reflects Florida as a whole in its struggle to retain control on its growth, that is American in its business and technology, but Latin in much of its ambience and culture.

Holding the lid on what Mr Ferre once described as a "human volcano" while at the same time ensuring Miami's continued growth as an international business and financial centre presents Mr Suarez with a tough agenda for the future.



Xavier Suarez, end of the rainbow



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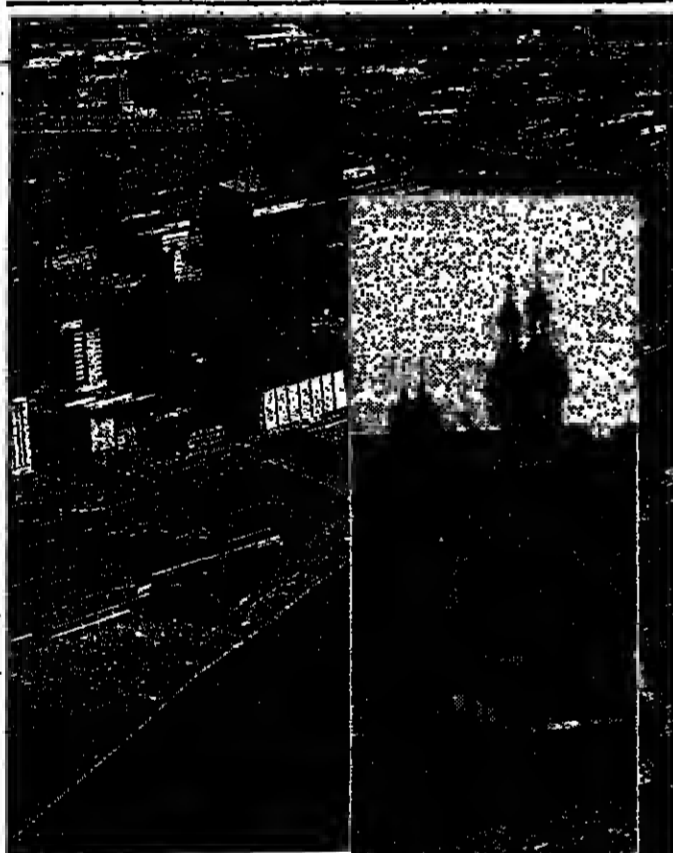
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For more information about Tampa and All Americas Health '87, contact John Sellers of the City of Tampa's International Trade Fair Advisory Committee, 600 Ashley Drive, Tampa, Florida, USA. Telex: ITT4940966 EDIT TPA

Advertisement for Florida National Bank, featuring an image of an award certificate and text describing the bank's services and expertise.

Advertisement for Florida National Bank, titled "Award-winning expertise for all your international banking needs," listing various services and contact information for branches in Tampa, Orlando, and Jacksonville.

Vertical text on the left margin, including "FLORIDA", "Way to ICAS", and "MI".

MANAGEMENT

ALAIN GRILL cuts a curious figure as a high fashion designer. As head of the shipbuilding division of Alsthom, the heavy engineering group controlled by France's nationalised Compagnie Generale d'Electricite (CGE), he has far more of the world-weary bearings of a man used to working in a tough and troubled industrial environment. But he nonetheless likes to compare himself to haute couture. "What I'm trying to do is to become the grand couturier of the luxury cruise ship business. I want to be able to sell them for a little more than if they came off the shelf."

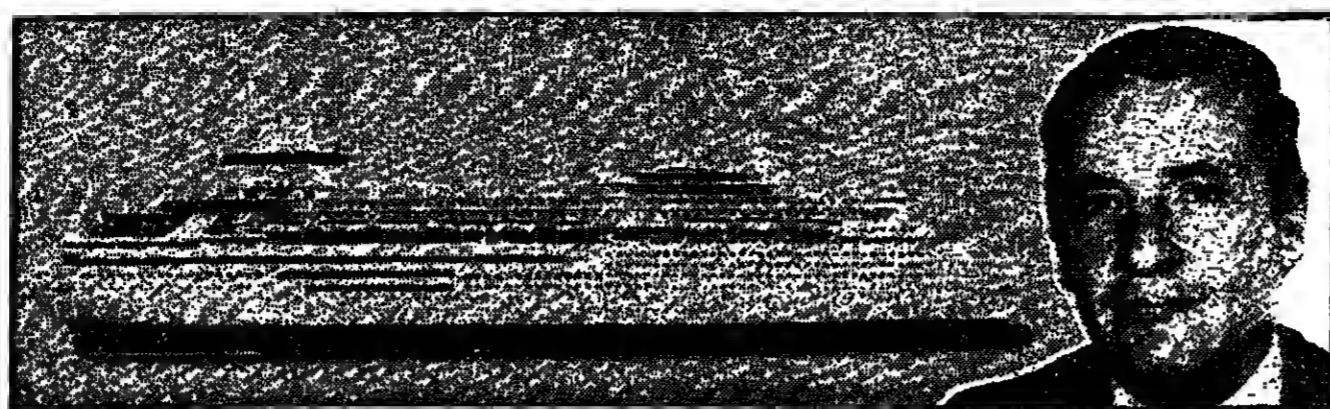
Since taking over at the helm of Alsthom's shipbuilding division four years ago, Grill has sought to specialise the group's Chantiers de l'Atlantique yards at Saint Nazaire, Brittany, in the construction of large luxury cruise liners. The strategy has so far paid off, at least in terms of saving Alsthom's shipbuilding activities from financial collapse. Saint Nazaire is now building the world's largest cruise liner, the \$175m "Sovereign of the Seas" for the Norwegian Royal Caribbean Cruise Lines, and recently won a \$150m order for the construction of a luxury cruise ship for the Los Angeles-based Sitaris Lines.

However, the French company has just been direly disappointed by Sitaris's decision not to go ahead with a second order for another similar \$150m cruise liner. Sitaris had originally indicated it wanted two ships; it ordered one firmly and reserved confirmation for the second by the end of this year. Today Saint Nazaire is the only viable major civil shipyard in France and is likely to become the last remaining important civil yard in the country, as distinct from the naval dockyards where all construction for the French navy is concentrated.

With the decision last summer of the French conservative government to stop supporting the private Normed shipbuilding group, Alsthom's rival has been forced to file for bankruptcy. Moreover, there seems little if any chance of survival for Normed's three troubled yards at Dunkirk in the north and Le Seyne and La Ciotat on the Mediterranean.

Alsthom itself has not escaped the crisis. It has just announced plans to close its Dubignon yards near Nantes and regroup its entire shipbuilding activities at Saint Nazaire 40 miles away. This, with the probable closures or reorganizations of the Normed yards coupled with the Dubignon shutdown, will leave Saint Nazaire as the only big civil yard.

"When I came to Alsthom



Alain Grill: now building the world's largest cruise liner, the Sovereign of the Seas, at Alsthom's Saint Nazaire yards

Why Alsthom sees a future in haute couture shipbuilding

Paul Betts explains the French group's specialist strategy in a shrinking market

four years ago I did not think, like the Japanese did in 1983, that there would be a quick recovery in the shipbuilding industry. I always believed it would long remain in crisis," says Grill, explaining that his priority was to look for "safe" market niches to ensure the survival and viability of Saint Nazaire. A former managing director of the Chargeurs Reunis shipping company with wide experience of the shipping business, Grill says that he wanted to find a sector in which Alsthom could be different from the competition and, more important, where the Japanese and Koreans were weak. "The cruise liner business is one of the rare areas in which the Japanese and Koreans have not yet taken a foothold."

With his previous experience of running, among other things, a cruise line, Grill became convinced that the cruise business, especially in the US market, had good development potential and that big cruise operators would seek to renew their fleets. Grill thus recruited new managers and specialists to develop Alsthom's cruise ship construction business to turn it into the leading European competitor in this sector.

Grill argues that the success so far of Alsthom's move into the luxury cruise ship construction business is only partly due to French government subsidies to support the domestic shipbuilding industry.

The French system of subsidies is now being reviewed

by the government. Indeed, Grill says that the level of state aid—equivalent to about a quarter of the value of a new ship order—should, if anything, be kept up, if not increased, especially in view of the fact that the French franc, which stood at around FF9 to the dollar under the previous regime, has since appreciated to around FF8.50 to the dollar. Grill adds that Alsthom's competitors all benefit from one form or other of state support. The French yards, for example, do not enjoy a steady level of order like those in West Germany because all naval construction is done by France's military dockyards.

Moreover, in the specialised large cruise liner sector, the Japanese and Koreans, also successful in undermining the market for European groups. Although they have yet to win an important order in this area, the Koreans and the Japanese inevitably enter the bidding for new cruise ship orders.

Detailed study of the US cruise market persuaded Grill and his team that cruise operators were increasingly moving towards new, large luxury vessels to offer more competitive cabin prices and attract a broader range of customers who were able to pay \$150 a day but not \$300 a day. "We were also lucky. The collapse of the dollar boosted the US cruise business in the Caribbean and Alaska although it has clearly cut into our profit margins," Grill says.

Although Chantiers de l'Atlantique has a long and venerable history of building transatlantic liners—including the "France" and the "Normandie"—Grill explains that the new luxury cruise ships are a different concept. With a capacity for 2,600 passengers, the Sovereign of the Seas can host more passengers than the France, although the transatlantic liner is longer and wider. But the new generation cruise ships are taller with extensive outdoor facilities on the top decks. They are also slower but with far lower fuel consumption.

But the specialisation in cruise ships has also forced Grill to look for other more traditional activities to occupy the workforce of Saint Nazaire. Cruise ships inevitably require far more interior decorating and other design work than conventional vessels. "There is a limit to the multifunction nature of a yard. You can't transform all your welders into carpenters or electricians and I needed to find ships rich in steel work to keep my people busy between cruise liners," explains Grill.

He has thus launched a line of so-called "catalogue ships," offering a range of petroleum product tankers, built on design-to-cost techniques. In Grill's fashion trade jargon, the catalogue business is Alsthom's "off the shelf" or "prêt-à-porter" section of its activities. Immediate prospects for the product tanker business are not

altogether encouraging for Alsthom. Grill acknowledges that the Koreans are now winning all the orders. However, he believes there will eventually be opportunities for Alsthom in this sector with the growing need to renew obsolete tankers.

Grill is also adopting a patient approach to another area into which he has moved Alsthom's shipbuilding business. He has been pushing the Chantiers de l'Atlantique into the offshore business, including the construction of semi-submersible multipurpose rigs, jack-up rigs, derrick jack barges, floating production and storage vessels, floating liquefied natural gas plants and other floating structures.

Through these efforts have not yet resulted in any big construction orders being won, Alsthom is working on a number of important research contracts in the offshore sector. The group expects offshore exploration and development to pick up eventually, offering in the longer-term, opportunities for Saint Nazaire to develop and transfer its new offshore technology.

Grill has also sought to diversify the yard's activities into other totally new areas. This brought Alsthom into the recent competition to build the fixed link across the Channel. The French group joined the Euroroute consortium whose road and rail scheme involving a combination of bridges and tunnels linked mid-channel by

artificial islands was rejected in favour of the Channel Tunnel Group's rival proposal to build a twin-bore rail tunnel using special rail shuttles. "It was a flop," Grill admits caustically, but he still thinks it was a "historic error" to have chosen the twin-bore rail tunnel solution.

However, the Euroroute experience, though disappointing, had some positive spin-offs for Grill. "We learnt several things about metallic bridge construction and tunnels. We are now interested in this business and probably wouldn't have been in it had not done the preparatory work on Euroroute," he says.

Of all the new efforts undertaken by Grill to enable the Alsthom shipbuilding division to survive as a viable business, the main dividends so far have come from his move in the luxury cruise liner business coupled with streamlining cost-cutting and rationalisation of Alsthom's yards.

Production costs have been cut back by about 30 per cent, and the workforce at Saint Nazaire by an equivalent percentage in the last two years to a current level of 4,500 people.

This has been achieved against a difficult background of labour relations in the French shipbuilding industry. Grill was hit with three months of labour unrest at Dubignon in Nantes because he decided to regroup the research and design centres 40 miles away at Saint Nazaire," says Grill.

Alsthom is now planning to shut down altogether the Dubignon yards which it absorbed in 1983 as part of a reorganisation of the French shipbuilding industry by the former Socialist administration. Dubignon, which specialised in the construction of military surface vessels and submarines taken for export market, has continued to lose money.

During the past two years, Dubignon has seen its workforce decline from 2,700 people to 730 people today, and should be down to 580 by the end of the year. Alsthom now wants to regroup all its shipbuilding activities at Saint Nazaire.

But if Alsthom is likely to face some turbulent months ahead with its proposed regrouping of shipbuilding at Saint Nazaire, its success in winning major cruise ship orders has given a significant boost to the company's shipbuilding image.

"It's been one of my constant preoccupations to give our yards a good and distinctive image in business which has a terrible image in France thanks to the problems of the Normed group," says Grill.

Hornby

IT WAS stated in last Wednesday's article on Hornby, the toy manufacturer, that a receiver was called in a little more than a year after the company had been bought out by its management from its former parent company, Dunbee Combex-Warx, which had gone into liquidation in 1980. It was also stated that, at the same time, the original buy-out backers arranged a

\$18m rescue package. Neither of these points is correct. Hornby did not go into receivership after the buy-out and, although it incurred a loss in the first year after the buy-out, it subsequently returned to profit and has remained profitable since then. Its backers have supported it all along, but have never been called upon to rescue it. We apologise for these errors.

Management abstracts

Competitive advantage through organizational culture. J. B. Barney in The Academy of Management Review (US), July 1986 (10 pages)

Argues that a company's culture is a source of sustainable competitive advantage if it is valuable, rare, and difficult to imitate (quoting IBM and Hewlett-Packard, among others, as examples). Examines various types of organizational culture and financial performance, and sees the most successful performers possessing cultures that enable them to perform and sustain a competitive advantage. Argues that companies without such cultures cannot expect to generate superior performance by changing them to incorporate valuable attributes. Infinite and finite capacity planning. D. Crabtree in BPCS Control (UK), June/July 1986 (24 pages)

Compares and contrasts infinite (no initial capacity) and finite (plant capacity) with finite loading (where it is); shows that the requirement to plan capacity arises at various stages in the scheduling process; contends that it makes sense to talk of finite or infinite loading because the loading technique is qualified by the stage of processing to which it is applied. Argues that a system employing finite loading at the planning stages can never form a permanent basis for a "MVA" manufacturing resource planning system.

Prospective reporting for small businesses. M. C. Sidwell in Journal of Accountancy (US), May 1986 (8 pages)

Summarises a guide for US accountants advising small businesses on financial forecasts; discusses the desirable characteristics of engagement and representation letters; covers procedures, presentation, and disclosures; checklists; uses of software templates and sources of information—all to a view of

Management abstracts

Receivers—double agents or surrogate liquidators? I. Benveniste in Accounting and Business Research (UK), Summer 1986 (57 pages)

Argues that it might be beneficial to change the status of a percentage of debts due to unsecured creditors by making them preferential, considering that would improve a receiver's performance; suggests that if banks are given greater financial incentives to monitor the receiver's performance, strategic choices that maximise asset realisation, and receivers with particular skills would eventually be appointed to the right situations. Computer research: considering the accountants' Magazine (Scotland), July 1986 and August 1986 (64 pages)

Two linked articles: (1) examines various types of computer abuse and looks at what is required of computer security; (2) gives a structure for developing and implementing a security policy

Preserving entrepreneurship as a core competency. J. C. Jarillo-Moss in The Journal of Business Strategy (US), Summer 1986 (14 pages)

Reveals the danger of an entrepreneur's organisation "becoming a bureaucracy which preserves the status quo for the entrepreneur and denies other management opportunities for creativity and decision-making; contends factors that should be taken into account in order to perpetuate entrepreneurial success, e.g. making individuals responsible for broad-defined objectives, making them believe they can succeed; presents six questions to be asked in making day-to-day decisions; claims they will help to preserve the entrepreneurial spirit.

Company Notices

DAR AL-MAAL AL-ISLAMI TRUST
Notice of Annual General Meeting
NOTICE IS HEREBY GIVEN to bearers and owners of Equity Participation Certificates of DAR AL-MAAL AL-ISLAMI TRUST, that the Fifth Annual General Meeting of the above Trust will take place at Hotel Continental in Sharjah, U.A.E., on 10 Rabia Al Thani 1407 AH corresponding to 11 December 1986 at 10 o'clock for the purpose of considering the matters in the following Agenda:
AGENDA
1. To receive the Chairman's statement and the Report of the Board of Supervisors.
2. To receive the Report of the Religious Board.
3. To receive the consolidated audited Financial Statements of Dar Al-Maal Al-Islami Trust for the financial year ended June 30th, 1986 and the Report of the Auditors thereon.
4. To elect the Auditors for the next fiscal year.
5. To re-elect the outgoing members of the Board of Supervisors or to elect any replacement members and to ratify the remuneration of the members of the Board of Supervisors.
6. To declare distribution of dividends on the result of the financial year 1985/86.
Mohamed Al Faisal Al Saud
Chairman of the Board of Supervisors

AMERICAN PETROLEUM PRODUCTION N.V.
NOTICE TO SHAREHOLDERS
Distribution of \$10 per share (by way of capital repayment) was approved by shareholders at the annual general meeting held on 3rd November, 1986 and is payable on 26th November, 1986. Payment on registered shares will be made in dollars to or to the order of the holders on record on 14th November, 1986. Payment on Bearer Shares will be made in dollars by cheque or by transfer to an account maintained by the payee with a bank in New York City against presentation of Coupon No. 16 at the offices of Schroder Investment Management Limited, Coupon Department, 36 Old Jewry, London EC2R 9BS or J. Henry Schroder Bank & Trust Company, 1 State Street, New York 10015 or Banque Generale du Luxembourg S.A., 14 Rue Aldringen, Luxembourg, 4th November, 1986.

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SOCIETE NATIONALE ELF AQUITAINE
NOTICE
to the holders of the outstanding US \$1,000,000 Floating Rate Notes, 1986, taken on 15th March, 1985

LEUMI INTERNATIONAL INVESTMENTS N.V.
US\$20,000,000 GUARANTEED FLOATING RATE NOTES 1987 EXTENSIBLE AT THE HOLDER'S OPTION TO 1990
NOTICE IS HEREBY GIVEN pursuant to Condition 4 (A) of the Terms and Conditions of the above Series of Notes that, at the option of the holder, the maturity of any Note(s) of which he is the holder will be extended to 1990 by presenting such Note(s) to the Agent at any time up to and including 15th November, 1986 with the intention of exercising the option to extend having been notified in writing to the Agent on or before 10th November, 1986.

LEUMI INTERNATIONAL INVESTMENT N.V.
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Architecture/Colin Amery

Sane proposals for Spitalfields

Property developers in the 1960s and 1970s were all thought to be in communion with the devil. They received blanket condemnation for the destruction of our cities...



A sketch of the view along Elder Street towards the proposed Huguenot Museum

City of London to expand with acres of offices. Leon Krier's proposals are ambitious. He calls the west of the market Spitalfields West and sees it as "an organic urban whole, forming a small 'city within a city'..."

ing Hall and a large hotel are the other major public edifices. Housing is provided either in terraces with gardens or apartments around large garden courtyards.

The Infernal Machine/Lyric, Hammersmith

Martin Hoyle



Maggie Smith

Erie Bentley referred to the "awful vacuity" of the later works, but Jean Cocteau's re-amping of the Oedipus myth recounted among his finest.

up Coward character, all baleful oedipal, aghast doublets and vocal cadences whose lift and droop can turn one syllable into an aria. In Act 2 she takes time off from royalty to play funny peasant mump with comic cockney accent.

sound's Lambert Wilson makes a promising Oedipus in his mixture of the tough and the romantic. Mr Eddison's transsexual priestly ancient is mellifluous and wry. Both the dog-headed Amphis and the school-girlish Sphinx are stilted, though her sudden green bat wings (luminous blue membranes) add to the pantomime.

BBC Symphony/Festival Hall

David Murray

The best part of Friday's BBC concert was Mahler's Das Klagende Lied. Early piece though it is, every bar is cent-Mahler, and the form, in which the grim folk-tale is told is heretically 'jazz-influenced'...

lesser parts and six Westminster Cathedral boys to speak for the murdered brother. The Chorus (trained by Gareth Morrell) outdid themselves; intently responsive at times, impeccably pitched, vital and exciting.

Kitez/Radio 3

Ronald Crichton

Rimsky-Korsakov's Kitez, last but not one of his many operas, was broadcast on Saturday from the BBC Manchester Studios as part of the Russian season. Edward Downes, an experienced hand at Russian opera, conducted the BBC Northern Singers and Philharmonic Orchestra.

terror. Vsevolod, killed in battle, reappears as a phantom. The lovers are united in choral rejoicing, in a state of eternal bliss. Some of Kitez is extremely rewarding—the opening scenes in the forest with their stream of endless melody, indeed all Fevroniya's music and especially the sustained rapture of the closing scenes, where Korsakov by-passes the usual world where tiny shifts of harmony or colour make a difference.

Macbeth/Royal Lyceum, Edinburgh

Michael Coveney

With the RSC about to launch the Jonathan Pryce Macbeth at Stratford-upon-Avon — it was brave of the Edinburgh Lyceum to unveil its own revival of the play this weekend.

actors anyway, but he scores a notable double here, rendering first the Captain and then the Porter totally drenched and inaudible. The banquet scene is similarly waterlogged, in spite of some sculpted staging effects.

This is a chilling and grandiose reading, very well considered, but lacking a final knock-out punch. Barrie Rutter's fine and angry Macduff stabs his adversary to death gruesomely and savagely.

The Seagull/Palace, Watford

Martin Hoyle

There is a perceptible Irish undertow to Watford's Chekhov, understandable, since the director, Patrick Mason, has a distinguished background with such roles as Dublin and some of his cast bring experience from the same background to the Palace Theatre.

second-raters whose tragedy lies in their self-awareness. It is not Prunella Scales' fault that the shade of Sybil Fawcett hovers over her. It is her fault, however, that she fails to dispel it entirely.

Outside of the principals and Macduff, not much thought has gone into the other characters. John Bett offering an indecipherably amiable Banquo, Christopher Bowen a sensibly righteous Malcolm and Paul Boyle a grimly confident Ross and Lennox, spokesman for a troubled political landscape.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

November 7-13

Music

SPAIN
Madrid, Lieder concert with soprano Susanna Braetmann accompanied by Perfecto Garcia Charvet. Circolo de Bellas Artes, Marques de Casa Riera 2 (Mon).

ORF (State Broadcasting) Symphony Orchestra and Vienna Boys Choir conducted by Lorán Zagrosk with Agnes Habereder, soprano; Margarita Hindereder, alto; Robert Gumbel, tenor; Dietrich Fischer-Dieskau, baritone. Rega, Rihm, Hartmann. Konzerthaus, (Thu), (71 83 45).

NETHERLANDS
Amsterdam, Concertchouw Philharmonic Chamber Orchestra under Herbert Soudant, with Nelson Fraas, piano; Mozart, Britten, Rosini (Thu), Simon Rattle conducting the Concertgebouw Orchestra; Mahler/Cocle (Wed, Thu), (71 83 45).

LONDON
Sopranos: Royal Festival Hall (Mon), (228 3191). Royal Philharmonic Orchestra conducted by Yuri Temirkanov with Mieczyslaw Fried, violin, Prokofiev, Bruch and Sibelius (Thu), Royal Festival Hall.

CHICAGO
Chicago Symphony Orchestra; Claudio Abbado conducting, Margaret Price soprano, Lucia Valente mezzo-soprano, Taro Ishihara tenor, Gwynne Howell bass. Chicago Symphony Chorus. All-World programmes (Thu), (435 8111).

CHICAGO
Chicago Symphony Orchestra; Claudio Abbado conducting, Margaret Price soprano, Lucia Valente mezzo-soprano, Taro Ishihara tenor, Gwynne Howell bass. Chicago Symphony Chorus. All-World programmes (Thu), (435 8111).

Court ballets live on

A private library in West Germany is providing a dramatic exhibition at the Wheelock Whitney gallery 123 East 12th Street in New York (until November 22). The cache comprises 188 unrecorded court designs for 20 court ballets performed during the reign of Louis XIII between 1634-94 — the French equivalent to Inigo Jones's designs for the Stuart masques. Not even the national collections in Paris and Stockholm can claim as many original designs of the period.

Not all the drawings on show are as fully wrought or splendid as the design for Jupiter's incarnadine confection, encrusted with gold and silver lightning and thunderbolts. Some are slight and not attributed to a specific ballet. The earlier costumes derive from Roman tournament dress, with short skirts for dancing. There is Cuchique, king of the stage on an elephant-sporting trunk-like heards; a figure adorned by live birds; androgynous creatures; decrepit old men in walking frames; humped-backs and, typical of these later grotesques, a figure whose head, emerging from a fishing net, is topped by an open oyster, his hair is seaweed, his coral trunk. Surprisingly, the King took the role of Susan Moore.

Conlon appointment

James Conlon has been appointed chief conductor of the Cologne Opera for four years as from September 1989.

FINANCIAL TIMES

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Monday November 10 1986

The trouble with luck

"EVERY GENERAL needs luck," Mr Nigel Lawson, the Chancellor of the Exchequer, said on television yesterday, echoing Napoleon. And it can be scarcely denied that Britain's Conservative Party has had more than its fair share of it in the past few weeks and months. A government that seemed to be falling apart over the Westland affair early this year has come back to the point where it can contemplate an early general election with a reasonable prospect of winning a third successive term.

It cannot all have been the result of good management. Part of the Conservative recovery has been due to the failings of the opposition parties.

The Liberals split over defence at their conference in Eastbourne, thus imperilling the chances of the Liberal-SDP Alliance. The Labour Party held together at Blackpool, but on the basis of a non-aggressive policy that is winning few converts. In the opinion polls that have followed, Labour has more or less held steady, suggesting that the Party may already have peaked, while support for the Alliance has declined. It is the Tories who have benefited. Their own defence policy has passed unchallenged.

Not least, the Government seems to do better when parliament is not sitting. The few bazaar skins and less exposure to scrutiny.

Rushed election

As parliament begins its new session this week, however, the Government needs to ponder how much has really changed. The very fact that the polls have returned a warning not to rely on them too much; they could change again another way and the trouble with luck is that it tends to run out.

What may—but still only may—have changed in the past few months is that the unemployment figures have finally reached a plateau. The Government's training schemes are beginning to have an effect. The long dispute with the teachers is wearing itself out. The decline of the pound against the Deutschmark has gone sufficiently far to make

exports more competitive. Government revenues may be buoyant enough to justify the Autumn Statement, although there are risks in the strategy with inflation and the balance of payments.

Perhaps above all the Government, from the Prime Minister downwards, has realised that it cannot seek a third term on a manifesto as inadequate as the one it put forward in the rushed general election of 1983.

It is still not absolutely certain, for instance, that the teachers' dispute has been settled and that the great educational revolution is now under way. Charles Lawson said yesterday that the pound had fallen far enough, but appears to rely only on high interest rates and exhortation to hold it up. There are decisions to come about the future of the Rover Group and of nuclear power stations after the Sizewell report. The rate of unemployment, even if it has stabilised, remains unacceptably high.

There is also a residue of too large for any government to contemplate with comfort. Not everyone has benefited from the consumer boom, and even on the most favourable interpretation of the Government's record, other countries—West Germany, in particular—continue to do better.

In the next few months there should be two tasks. One is for the Government to show that it can govern competently—by good judgment as well as good luck—while parliament is sitting. The other is to draw up a manifesto for the 1990 election that covers such fundamental questions as tax reform and the relief of poverty and drops the ad hoc, make-it-up-as-you-go-along approach that has characterised much of Mrs Thatcher's administration since 1983.

The Prime Minister surely wants to do better than to win by default.

Government authorities insist that most plant decisions are influenced primarily by factors such as the availability of skilled labour, good communications and the quality of life. But many also concede that, particularly when several plant sites are in the bidding, hard cash can tip the balance.

"Every month there is a project somewhere in Europe where the dispute turns on money," says Mr Chris Frison, head of the Invest in Britain Bureau, an arm of the Trade

Department. "Only a minority of projects get into auctions, but they are usually the big ones."

The number of European governments prepared to shoulder an appreciable share of project costs through incentives such as regional development aid, training grants, tax breaks and research and development support has grown perceptibly in the past few years.

Until the mid-1970s, such inducements were largely the prerogative of poorer countries such as Ireland, which still offers some of the most generous financing around—up to 70 per cent of the costs of a foreign investment. Today they have spread even to Europe's most prosperous industrial heartland, including Austria, the Netherlands and several West German states.

But why use a carrot if a stick will do the job just as well? In France, some government officials argue that the recent influx of investment from Japan is a direct result of a willingness in the past to crack the whip ruthlessly over bilateral trade.

In particular, the notorious "Pottiers affair" in 1982, when France ordered all Japanese videorecorders (VCR) imports

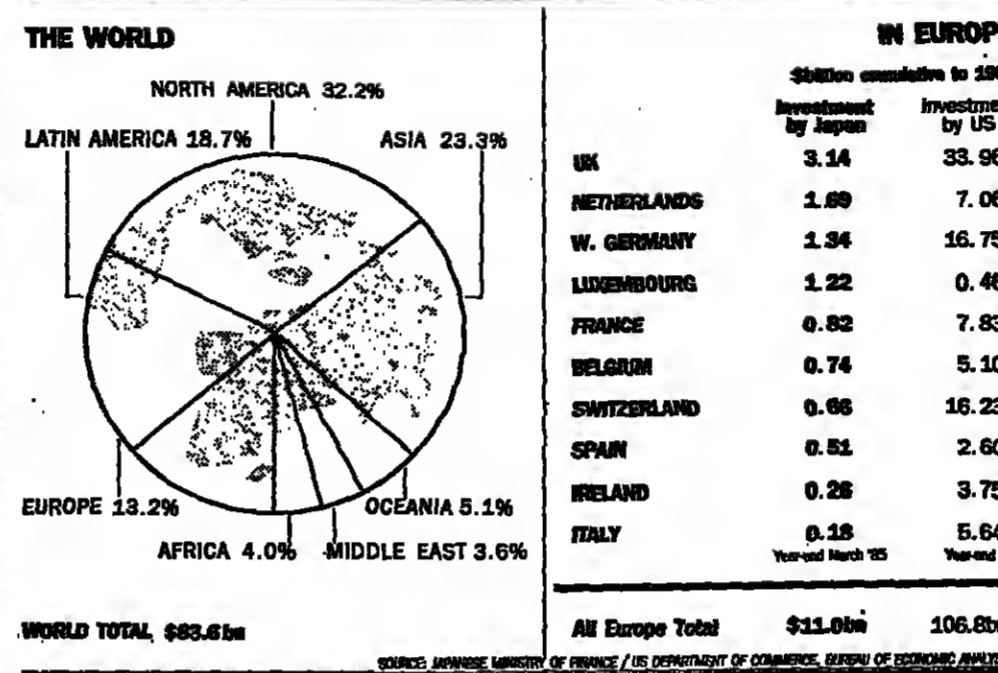
to be routed through a remote customs post, is cited as a milestone. "We were the ones to show our teeth," says Ms Marie Louise Bougenoux, head of inward investment at Datar, the French regional development authority. "It really shook the Japanese."

There seems little doubt, either, that the EEC-wide curbs on VCR imports imposed in the early 1980s and special tariff duties on compact disc players have been largely responsible for the growth of Japanese assembly plants in the Community in the past few years.

Many Japanese companies believe the EEC Commission is now pursuing a similar strategy in other product sectors. In imposition of stiff anti-dumping penalties on imported copiers last summer and threatened actions over microwave ovens, the Commission's intentions are all viewed from Japan as part of a deliberate campaign to encourage increased investment in European manufacturing.

Officials in Brussels admit they would be far from displeased if that were the result. However, they are also worried that intense competition between governments to subsidise inward investments risks

COMPANIES ON THE MOVE
PREFER FRANKFURT
BRITAIN MEANS BUSINESS
WELCOME TO SHANNON
YOU ARE ENTERING SERVICE
WERE THE YOUNG EUROPEANS
Lower Saxony: Research, Promotion, Pn



creating an absurd situation, in which Europe falls over itself to compensate the Japanese with one hand for the retribution which it has administered with the other.

Even when fears of protectionism are not an immediate consideration, there is little evidence that subsidies attract to Europe companies which would not otherwise have come here.

LSI created something of a stir last year when it pulled out of talks on setting up a chip plant in Wales and decided to locate it in Lower Saxony in West Germany instead. Both regions offered roughly similar financial incentives for the initial phase of the project, Mr Corrigan says, but Wales was unable to promise assistance for any future expansion.

The EEC Commission, which sets ceilings on government aid to investment, would clearly like to stop companies "shopping around" for inward investments. But this is hard to achieve, partly because under EEC law no distinction is made

between local and foreign companies in the granting of national aid.

Southern Africa heads for crisis

SOUTHERN AFRICA is becoming a dangerously unsettled part of the world. The tensions created by the death of President Samora Machel, of Mozambique, the build-up of civil wars in Mozambique and Angola, the growing rift between Malawi and its neighbours and the prospect that Zambia and Zimbabwe may soon impose selected sanctions against South Africa despite their vulnerability to retaliation, are all in themselves cause for concern.

Together they form a picture of a region moving steadily towards a crisis from which none of the countries involved can emerge unscathed.

Although the war in Angola appears to be intensifying, with reports last week of further South African military involvement designed directly or indirectly to advance the link guerrilla movement to the level of tension in the region could well be raised several notches by events in and around Mozambique.

The documents alleged to have been recovered from the aircraft crash, in which Mr Machel died last month, are being presented to the outside world by South Africa as evidence that Mozambique and Zimbabwe are plotting the overthrow of President Hastings Banda of Malawi.

Crocker, the US Assistant Secretary of State for African Affairs, has expressed the impression that "a pattern of communication and support (between the MNR and South Africa) does continue."

The rebels pose an equally serious challenge to another neighbour of Mozambique. One of their main targets is the so-called Beira corridor, through which runs Zimbabwe's road and railway links to the Mozambican port of Beira, as well as a vital oil pipeline which brings in the bulk of Zimbabwe's fuel. It is also the route through which other African states in the region hope to redirect their trade and so reduce dependence on South African ports.

Hence the pledge this month by Mr Robert Mugabe, the Zimbabwean Prime Minister, to defend the corridor, which is already protected by thousands of his troops, at all costs, and to support Mr Joaquim Chissano, the new Mozambican president, against the MNR. The rebel response was a declaration of war on Zimbabwe.

A grossly unequal test of strength between South Africa, the regional superpower, and Mozambique, enervated by war, economic decline and famine, may be in the offing. Will Mr Chissano, who made victory over the MNR the theme of his inauguration address, carry out his predecessor's threats against Malawi? If he does, could South Africa stand by idly?

Goodyear plays US card

Robert Mercer, 62 chief executive of Goodyear, the embattled US tyre giant, is convinced that Sir James Goldsmith, the Anglo-French financier, is "obsessed" with taking over his company.

Mercer has been recruiting some former allies to help ensure that it does not happen.

On paper at least Goodyear appears to have retained two of the best financial advisers on Wall Street.

Men and Matters

comfort, safety, and security, carry a theme line, "Goodyear, take me home."

The first tv commercial was about a father and son looking for a family dog on a wet afternoon in a car fitted with Goodyear tyres. It was screened in the middle of a "sitcom" programme called Gimme a Break.

After Olivetti, office equipment, car components, pasta (Bionissi), financial services and publishing to add varied springs to his industrial and financial empire, De Benedetti has just acquired a 25 per cent stake in the high fashion house of Yves St Laurent.

Bonsai bankers

Sanwa Bank, the fifth largest bank in Japan, has concluded that the best way to get foreigners to work for it—and to absorb the strong Japanese corporate culture—is to catch them young and train them.

The bank has just put the principle into practice by recruiting two young Oxford graduates, Simon Glaw aged 22 and Charles Rixon, aged 23. They are off to Tokyo shortly for an intensive two-year training. After that they will be dispatched to a posting outside Japan to help build Sanwa's growing international business.

Although several Japanese companies already take in foreign graduates (this is thought to be the first time that recruits have been whisked off to Tokyo to be thoroughly steeped in the language and business methods.

Dash for growth

And would occidentals lose one of their perceived advantages over orientals if the latter were as tall—or even taller?

The science of genetic engineering has reached a point where that is no longer an academic question. A state-owned Swedish company, Kabivitrum, is hoping to persuade the Chinese to buy its human growth hormone. That is a biotechnology product said to make people grow taller.

Doctors at Union Hospital, Peking, are already testing the drug experimentally, says Dr Hans Floth, a Kabivitrum executive just back from China. The drug was developed by Genentech in California under a research contract which left the Swedish firm with the world market outside the Americas.

Number one rig

Oil rigs may not be in much demand these days, but the Glamis Arctic II, which has been auctioned by Phillips, London, fetched £15m, the highest price ever in a fine art auction room.



When you have some idea of what's to come, you can act accordingly.

If only someone had warned Harold that William and his trusty bowmen were on the way. Alas they didn't, and the rest is history. Which makes you realise just how beneficial a little knowledge of the future can be.

So this month The Economist Publications are bringing out a new magazine called "The World in 1987". It's a yearbook. But unlike yearbooks of the past, ours looks to the future. We'll forecast and analyse trends for 1987. We'll cover likely developments in science and technology. We'll delve into British industries and the domestic and international markets in which they compete. And we'll make predictions for the political and economic prospects of both Britain and the rest of the world. And all for just £2.95. If Harold could have bought such a magazine in 1065, perhaps he wouldn't have bought it in 1066. On sale at your local newsagent from November 20th.



Foreign Affairs

Summit still wrapped in cloud

By Ian Davidson

US SOVIET NUCLEAR BALANCE

Table with 3 columns: US warheads, Soviet warheads, and categories like Intercontinental ballistic missiles, Submarine-launched ballistic missiles, Bombers, Total.

Source: The Military Balance, 1985

WHEN Mrs Thatcher visits Ronald Reagan this week in Washington, she will have a three-part script carefully prepared. First, she will commiserate with his setback in the mid-term US elections...

This last will obviously be the central question on her mind. The difficulty is that, even though the summit took place a month ago, the British Government and its most expert advisers still do not know what happened.

By this I do not just mean that Whitehall is uncertain about the details of the two negotiating positions. In this respect, the British position does not seem to be much worse placed than Washington and Moscow: disagreement between the superpowers about precisely how far they got at the Hotel House appears to be so deep that Mr Edward Shevardnadze, the Soviet Foreign Minister, felt entitled to stage a walk-out from a session with Mr George Shultz, his American counterpart, at a follow-up meeting in Vienna last week.

Of course, the details of the disagreements are anything but details, apparently minor changes in a word or two would imply massive differences in the international arms control regime.

These differences do not seem significantly to affect the first five years of a proposed 10-year disarmament package, in which long-range strategic nuclear weapons would be cut by 50 per cent and intermediate-range missiles would be eliminated entirely from Europe.

the elimination of all remaining strategic ballistic missiles (i.e. not bombers or cruise missiles, and not short-range ballistic missiles in Europe) but a later clarification removed the word strategic (so as to cover short-range ballistic missiles in Europe). No doubt these uncertainties are only the tip of a vast iceberg, since it is impossible to encompass total nuclear disarmament in an impromptu negotiation in a single weekend in Iceland, without spraying ambiguities around like confetti.

What though these differences are, they are not the uncertainties which most trouble the British Government. What London does not yet know is whether anything real happened at Reykjavik, or whether it was just a piece of melodrama staged so that the two leaders could outbid each other in claiming to be man of peace.

On the face of it, scepticism is obviously in order. Over the past 40 years the superpowers have not succeeded despite several attempts, in negotiating reductions in their nuclear arsenals by a single warhead; it must be stretching credulity to imagine that they could succeed in parallel commitment from three other adversary nuclear powers—China, France and Britain; and it is quite impossible that they could complete such a programme in as short a period as 10 years.

My own hunch, however, is that Reykjavik was a major event in the real world. Instinct supports the general proposition that the two superpowers are negotiating seriously about deep cuts in nuclear weapons, for two reasons: first, this is the only kind of deal which has any chance of extending the life of the 1972 ABM treaty and of preventing the deployment of Star Wars; second, from where we are now, the alternative to a deep cut agreement is not a freeze or an extension of the unratified Salt II treaty, but a world without arms control at all. Still, these are just hunches on my part.

What is incontrovertible, by contrast, is that Ronald Reagan is being mercilessly and publicly whipsawed by Mikhail Gorbachev, not once but time and again. He was outmanoeuvred into agreeing to the Reykjavik meeting when he wanted a summit in Washington. He was bombed into an unprepared negotiating session on a package which went far further than anything previously contemplated in Washington, let alone discussed with the Nato allies. He was saddled with the apparent onus of having blocked an agreement through his adherence to Star Wars. And now his Secretary of State is being accused of going back on what Mr Shevardnadze claims was agreed in Reykjavik.

In Geneva a year ago, Mr Gorbachev was made to appear amiable but ineffective; at Reykjavik he took his revenge, and part of the meaning of the recent sequence of events is that he is determined both to hold the initiative, and to ensure that arms control, including curbs on Star Wars, will remain high on the international agenda on Soviet terms.

Not merely is the Great Communicator being out-maneuvred, he is being upstaged and out-maneuvred as well. All this is rather worrying for the British Government. In the first place, there is the little matter of Trident. It is already embarrassing to be engaged in the acquisition of a new submarine missile system which could quadruple the number of British nuclear warheads, at a time when the superpowers are talking of a 50 per cent cut in their arsenals. It could be even more embarrassing if they both started talking with the appearance of seriousness, about a non-nuclear world. It could be more than embarrassing if apparent signs of progress towards such a world were coincided with a British election campaign.

Such a coincidence is unlikely, however. Nigel Lawson's public spending review clearly points to a British election next year, whereas the inference of Reykjavik is that the quest for a far-reaching arms control deal in Geneva, they do not expect to conclude it before the next presidential election, and perhaps do not want to conclude it with Mr Reagan, because they already know he will not give them what they want on Star Wars.

But the deeper worry highlighted by Reykjavik is over America's role as leader of the Atlantic Alliance. Over the years, US leadership has regularly been criticised, often with justice; but the fundamental regime remained remarkably stable. Then came Ronald Reagan. Three years ago, with Star Wars, he casually announced a strategic revolution. Last month at Reykjavik, he was debating another revolution, the elimination of ballistic missiles. Neither revolution can he be delivered as advertised, but Europe needs to ponder the lesson: for this President, America's security is separate from Europe's. That lesson is beginning to be learned in London. Where the idea of Britain is a European rather than a transatlantic country is belatedly making headway, even where one might least expect it. Mrs Thatcher, of course, remains an unreconstructed Atlanticist.

There is much to be said for fully joining the European monetary system. One of the reasons for joining the system is not the soft option which the hon. gentleman implied. It would not be a soft option... The right hon. gentleman is extremely precipitant in noting that, if we were to join the EMS fully, sterling would be linked to the D-Mark.

—Nigel Lawson, Question Time, Nov. 6.

FOR ALL the conventional wisdom to the contrary, I do not think Mrs Thatcher will be able to risk an early election. In 1983 she was persuaded, against her initial instincts, to run on the Falklands factor, nearly a year before the expiry of her term. The present Parliament does not expire until June 1988. The Chancellor's initial desire to go the full length was right; and she should not now be back-tracking.

If the Government again throws away the last year or two of its term to test re-election, the electorate will wonder what it has to hide.

We know that present economic strategy—unbuttressed by EMS membership—is exposed to major risks.

After the end of the 1987-88 financial year, if the gamble has paid off, the Government will legitimately be able to ask for a new mandate. If it cuts and runs before, it will not deserve to be given the benefit of the doubt. And if Downing Street thinks that this verdict will remain locked in decently obscure learned columns, it will soon be disabused.

Some of the instant reaction to the Autumn Statement has confused the political economy, the fiscal arithmetic, and the macroeconomics. The political economy is simply that Mrs Thatcher has abandoned her attempt, not even to cut public spending, but to hold it stable. She should explain her U-turn to the nation.

The more immediate fiscal background is that the unpublished forecasts for 1987-88 revenue are far more buoyant than generally realised. This reflects both expected above-trend growth and soaring company profits. Unfortunately, this latter item does not augur well for wage inflation.

The Treasury is at last working on an equation trying to link the two. Wage inflation, too, is good for revenue, so long as the boom lasts. The "planning total" for spending for 1987-88 is now put at £148,800, some £4.7bn above earlier plans and — more important — 23.4bn or 5.3 per cent above the expected out-turn in the current year, all in cash. Even so, revenues are now expected to be sufficient to finance tax cuts while sticking to the original intention to run a Public Sector Borrowing Re-

Economic Viewpoint

Too risky for an election

By Samuel Brittan

TREASURY FORECASTS

Table with 3 columns: 1985, 1986, 1987. Rows include Domestic demand, Exports of goods and services, Imports of goods and services, Domestic production: GDP, and a note: * 3 per cent allowing for miners' strike.

requirement in 1987-88 amounting to 1 1/2 per cent of GNP or £7bn to £7 1/2bn. That is why the Chancellor could say categorically on Thursday as he has not done in previous autumns: "There will be no expansion of the PSBR."

Now for the macroeconomics. Some of the Chancellor's advisers want him to use the margin not to cut tax but to reduce the PSBR still further. One argument is that just as the Budget deficit should be allowed to rise in a recession, it should be reduced when growth is

What is massively clear from the Treasury's Economic Prospects is that, thanks to the Prime Minister's obstinacy over the EMS, the Government has failed to consolidate inflation at the 3 per cent rate it reached in the summer. The annual increase in the RPI is expected to rise from 3 1/2 per cent in the present quarter to some unspecified rate around 4 per cent some time in 1987 before slipping back to 3 1/2 per cent at the end of that year.

France, without undergoing any of the tensions of "Thatch-

The unpublished revenue forecasts for 1987-88 are far more buoyant than generally realised

above trend. To carry this argument further leads to disputes akin to that of schoolmen on the number of angels able to dance on the head of a pin.

The best single indicator of policy stance, Nominal GDP growth, is now put at 7 per cent for 1987, some 1 per cent higher than before—and 1 1/2 per cent higher than the estimate for the current year. If the Treasury simply wanted to tighten up all round, it would have some case.

The worrying feature of this stance is that it seems to want to tighten fiscal policy to allow interest rates to fall.

The logic is the wrong way round. The most important monetary aim should be to keep sterling in the DM 2.80 to DM 3.10 range or not let it go too far below 68-70 on the trade-weighted index. Interest rates need to be whatever is required to maintain sterling in that range if inflation is not to take off. Then, and only then, can we sensibly determine fiscal policy.

to rise by 3 1/2 per cent. This is despite an expected improvement in productivity and slow-down in earnings (the latter hopeful in view of industry's response to devaluation). Yet the rise in "output prices" is expected to fall from 4 per cent in 1986 to 3 1/2 per cent next year. Difficult to believe.

Many critics will focus on the forecast of a £1 1/2bn current payments forecast in 1987—and a much higher number is supposed to have emerged from the Treasury's computer before "judgment" was applied. A temporary payments deficit, even if larger than forecast is not a cause for jumping off Bracken House, provided it is not part of a continuing upward trend which will undermine sterling. The Treasury's more detailed volume forecasts do, however, suggest a deterioration in the first and second halves of next year.

The heart of the Treasury's forecast is in the table—unfortunately in funny money, so that leakages of demand into inflation, as distinct from imports, do not show.

The line showing a continuing 3 1/2 per cent real increase in domestic demand is credible enough, and may even be too low. The same applies to the rise from 1 to 3 per cent in the growth of exports, in view both of sterling's depreciation and the improved growth of Britain's overseas markets. The forecast may also underestimate the growth of invisibles.

The estimate that looks most suspiciously optimistic is the expected decline from 5 to 4 1/2 per cent in the growth of imports. The most likely balancing force, should the economy overheat, would be an increase in interest rates which—via its effects on stocks—would slow down both demand and imports.

The Treasury is pessimistic about the amount of devaluation required to effect a given improvement in the trade balance. This pessimism is dangerously self-justifying, because it reflects (a) the well-justified scepticism of businessmen that any exchange rate change is here to stay and (b) the erosion of past depreciation by domestic wage inflation. Under a different environment, with a commitment to maintain the present exchange rate, and a belief that wage increases would not be validated by depreciation, the response would be very different.

There is a strategic choice to be made. Either we give priority to the crude balance of payments figures and try to make devaluation work by administering large and repeated doses, or we concentrate on currency and price stability as the longer-run but surer route to external balance. The latter course involves the EMS, the former a retreat to the habits of France before De Gaulle.

Markets for sugar

From Mr G. Nash. Sir—There has been much comment in the press in recent months about sugar in this country and the future of the sugar beet industry, mainly occasioned by the prospective takeovers currently the subject of deliberation by the Monopolies and Mergers Commission.

The discussion so far has concentrated on beet sugar and its problems and little attention or regard has been given to the other source of supply for any sugar imported under the Lome Agreement with the EEC, from Commonwealth countries, and making up some 80 per cent of sugar consumed in the UK.

For many years the Commonwealth Sugar Agreement was the vehicle by which these supplies were imported. When the UK joined the EEC and this agreement was superseded by the Lome Convention, assurances of a quite specific nature were given both by the Community and the UK Government of continued access for sugar from developing members of the Commonwealth. For these countries the continuation of this relationship is of the greatest economic and social necessity.

Recent events, however, appear to be diluting the strength of these assurances despite the fact that they have been repeated over and over again. It is of the greatest concern to us that whatever the future of British Sugar, the access of the UK for cane sugar is preserved at its present level. If this were not done, we would have no alternative home for our sugar, as suitable outlets are not available in the EEC for any of the additional quantities that might be displaced from the UK. The beet sugar industry has always been the main source of supply for most other EEC members but the UK has had traditional links with cane for most of its sugar going back over many hundred years.

We are not of course asking for anything more than the maintenance of undertakings freely given in the past and of continuing and serious validity. It would have the greatest social and economic consequences for our country, was in any way damaged. Tropical agriculture does not enjoy the range of alternative crops open to Europe and sugar is one crop that can be grown and provide an income for many of us grappling with all the problems of small-island or land-locked economies.

The maintenance of our position in the UK is not a marginal matter that we can shrug off, but it is of fundamental importance to us, and we watch with concern the apparently increasing risk to

Letters to the Editor

such a major part of our economic livelihood. Gian Nash, Chairman ACF High Commissioners Sugar Committee, Mauritius High Commission, 32-33 Stosson Place, SW7.

Plessey and GEC

From Mr M. Lester. Sir—I read with interest both Justinian's article (October 27) on UK takeovers and US law, which discussed the decision of the US district court in the unnecessary action brought by Plessey alleging violation of the US securities laws by GEC in connection with its take-over offer, and the letter from Mr Warren J. Simshelmer, deputy chief executive of Plessey (November 3).

Mr Simshelmer complains of "significant inaccuracies" in the Justinian article and of its thesis that Plessey filed suit against GEC merely as a delaying tactic in response to GEC's bid. But he fails to mention that the suggestion that it was "at least possible that Plessey's efforts were motivated by a desire more to delay than to inform, more to gain an advantage than to preserve neutrality" was made by the US district judge, not Justinian. Those who read a full report of the case will be left in no doubt that Justinian's article fairly and accurately presents the court's ruling.

M. Lester, General Electric Co, 1 Stanhope Gate W1.

Giving to charity

From the Director, Institute of Charity Fundraising Managers. Sir—Nikki Tait's excellent article (November 1) on payroll giving to charity, highlights some of the very real problems which remain unsolved.

At the end of March I chaired a meeting which sought to clarify the Budget proposals with regard to charities. I was quoted by the Chief Secretary of the Treasury in the debate of the Finance Bill as saying in my summing up that I welcomed the changes proposed in the Budget. It was, while true, not the whole truth.

I am further quoted in this newspaper as saying that it was not to the charities to take up the advantage of this opportunity

and up to the Institute of Charity Fundraising Managers and its trust to equip charity fundraisers to do this. I went on to say (and sadly this was not reported) "If we are to achieve this, clear, precise and concise guidelines need to be drawn up quickly by the Government, and I very much hope that we shall be included in the consultation process."

The Inland Revenue guidelines have at last, belatedly, appeared. We were not given sight of any draft and there are, as your correspondent says, some areas in which the rules are not specific enough.

To give an example, although a time limit is set for employers passing contributions to agency charities there is no time limit for an agency charity to pass on those contributions to charities. Not only could this lead to just the sort of abuse which the Inland Revenue wishes to avoid but it might make employers and employees reluctant to take the plunge.

The Government did offer a real opportunity to increase voluntary income to charity in Britain when it proposed this £100 tax break to individuals. It would be so and if the scheme did not take off through lack of precision at this stage. Diane Yeo, 14 Bloomsbury Square WC1.

Changes at the Exchange

From Mr J. Torrie. Sir—Not all small member firms of the Stock Exchange regard the International Securities Regulatory Organisation merger proposal as sinister. ISRO's financial resources dwarf those of the Stock Exchange and any suggestion that ISRO is out to assimilate members' assets may be disregarded. The inclusion in the ISRO membership of such names as Bank of Scotland and Baring Brothers is taken here as a guarantee of good stewardship and proper behaviour.

I am more attracted to the alternative view that ISRO is prepared to include the Stock Exchange's occasional quaint habits in order to develop an essentially sound system into one of the world's top three markets. This is a compliment which no other market in the same time zone has been accorded.

In the same way that the Federation of the Stock Exchange in 1973 enabled small

firms to participate in "Talisman" TOPIC, and now SEAQ, the creation of an enlarged Stock Exchange will surely facilitate the use of sophisticated systems that would otherwise have not been within their scope.

It is not only the larger groups which are likely to benefit from the influx of new international business to the proposed new Stock Exchange; small firms may anticipate spin-offs in the environment face of sophisticated systems that would otherwise have not been within their scope.

J. Torrie, Torrie & Co, 6 Hope Street, Edinburgh.

Economics and the environment

From Dr L. Brookes. Sir—Much of what Jonathan Porritt said (October 29) needed saying. Improvements in the environment have to be paid for just like any other improvements in our living standards. It is not so long ago that the environmentalists were saying that all we need to do was opt for zero economic growth.

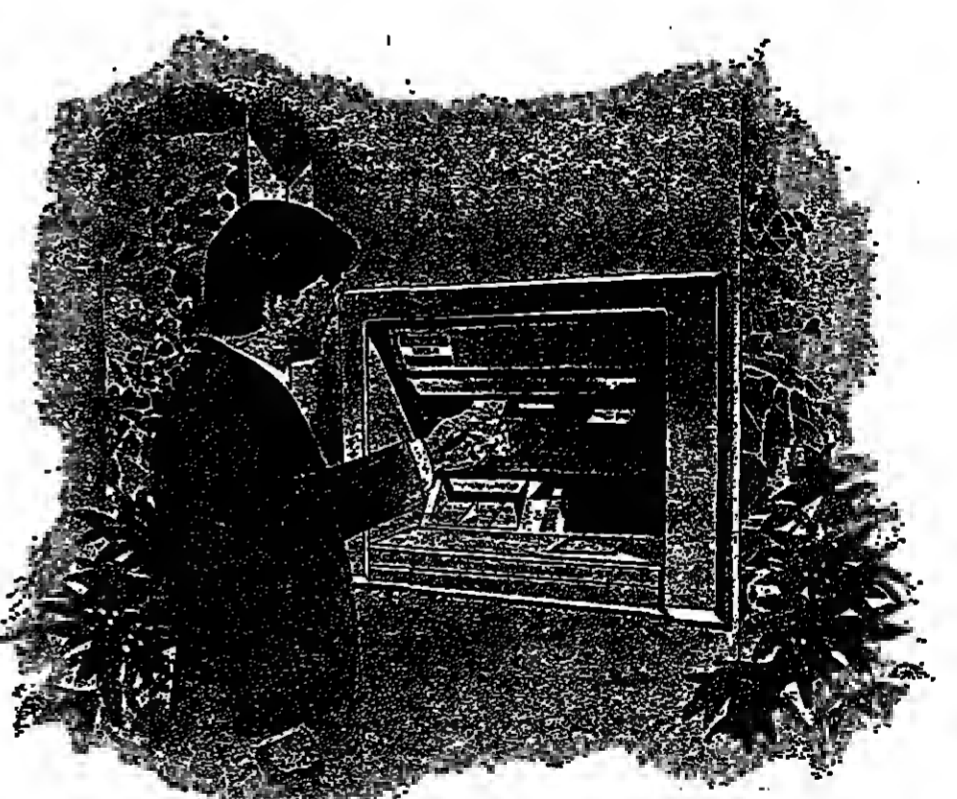
Unfortunately he could not resist ventilating his well-known bias against nuclear energy. He chose to attack its economics, trying in the face of the recent OECD report which showed a substantial economic advantage for it in a wide range of countries including the UK.

Face it, Porritt, the US nuclear industry has not collapsed any more than has the power plant industry generally. Cancelled orders for coal-fired plants in the US since the first oil crisis except those for nuclear plants. It has not been a case of "consumers refusing to pay more for a more risky energy source"; those utilities with the highest proportion of nuclear plants have the lowest tariffs. The industry does have a problem: it arises from the American system of private utilities looking to the open market for capital for new plants but being subject to a form of public control of their incomes that is biased against capital-intensive options. This may drive utilities to short-term expedients to postpone investment in large cost-efficient plant.

It is moreover wildly wrong to represent the US as having made a sea change to conservation, combined heat and power and "renewables" for its energy supply. There has hardly been a ripple in the long term trend of improving energy efficiency of the US.

(Dr) L. G. Brookes, 16 Ipswich Road, Bournemouth, Hants.

MAN'S LANDMARKS

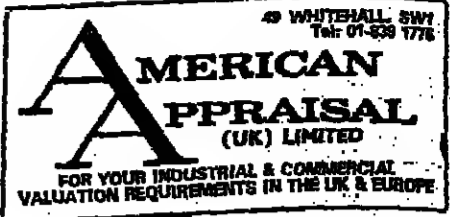


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When you travel abroad with your Visa card you can obtain local currency from any cash dispenser, wherever you see the Visa sign, in Europe and around the world. Visa has the most widespread network in the world with over 11,000 machines from Oslo to Malaga and London to Sydney. Just look for the familiar blue, white and gold symbol wherever you need cash. With your card and Personal Identification Number (PIN), you can get your instant cash day and night, whenever you need it.



All you need.



Roderick Oram on Wall Street Dealers hammered at auction

A CADILLAC limousine glides up to the Federal Reserve Bank of New York's squat, grim fortress in the heart of Wall Street and parks illegally outside the front door shortly before bids close on the latest Treasury bond auction.

Inside the car, two employees of Nikko Securities are on the telephone to their firm's 37th floor trading room in a nearby skyscraper which looms over the Fed. Up there, colleagues are holding last-minute consultations with the firm's head trader in Tokyo even though it's nearly 8am Japanese time.

One last check of the New York market screens and Nikko's Wall Street team fixes the price and size of its bid for the \$8.25bn of 30-year bonds. Word is passed in Japanese over the telephone to the limousine driver who scribbles down the details, scrambles out of the car and runs up the steps into the Fed. They make the 1pm deadline with seven minutes to spare. It's a breeze. They had only seconds to spare on the previous day's 10-year note auction.

This scene of Yankee industry and Japanese efficiency was played out three consecutive days last week for the Treasury's quarterly refunding. Other firms did it differently. Those with the coveted status of primary dealer, eagerly sought by Nikko and other foreign firms, used their own phone-equipped booths inside the Fed. Less fortunate ones staked out public payphones in surrounding streets. One firm was removed to have missed an August auction when its runner was knocked down by a car.

Bond dealers should have been so lucky last week. For many the refunding felt more like a tangle with a Mack truck. The auctions had gone from bad to worse as retail investors walked away from low yields leaving them to count the cost of large inventories of unsold new securities.

Only a week earlier the picture looked far brighter. Dealers believed that Japanese would be heavy buyers of the 10-year and 30-year papers in the wake of Tokyo's discount rate cut and yen-dollar stabilisation agreement with the US. Domestic demand also was thought to be good.

A leading Wall Street firm, respected for its professionalism, disliked for its ruthlessness, leapt aggressively into the first auction last Tuesday by organising a cabal of fellow firms, as one competing head trader described the play, to bid well below the investor-accepted rate indicated by the "when issued" market. They cornered the \$10bn worth of three-year notes offered, hoping to make large profits selling to dealers short of the paper. But investors and dealers were disinterested in the low yields and left the cabal holding the bag.

While the opportunists were losing their shirts, the Republicans were losing the Senate in the mid-term elections. The political upset might have softened up the bond market on Wednesday if the dollar had not rallied on news of poor West German industrial production figures.

Robert Thomson watches Peking take lessons in the capitalist power game China takes a tip from Wall Street

THE CHINESE like to say that their economic reform programme is building "socialism with Chinese characteristics." In the next few days, a powerful delegation of Wall Street brokers, visiting Peking to teach the American way of money-making, will find that high finance there also has distinctly Chinese characteristics.

China's central bank, the People's Bank, is hosting the *creme de la creme* of capitalism in the hope that the country will learn a few tricks of the trade for its own forays into the world's financial markets and for its plans to stimulate the domestic market.

Mr James Balog, vice-chairman of Drexel Burnham Lambert, will lecture Chinese officials on the permutations and combinations of the investment instruments, while the senior partner of Milbank, Tweed, Hadley and McCloy, Mr Elliot L. Richardson, is due to explain the regulation, or lack of it, of financial markets.

Other visitors of note include Mr John J. Phelan, chairman of the New York Stock Exchange, which has co-organised the symposium, and Mr William A. Schreyer, chairman of Merrill Lynch. The 20 or so men of capital have brought more than know-how and gung-ho along. The conference headquarters has acquired a Manhattan-like mania in a city in which the pace is most politely described as languid.

"Ring me at three in the morning if you like, I am working here," assured one of the New York organisers, as he rushed out to meet an aeroplane. Meanwhile, several People's Bank of China staff sat idly in a corner engaged in the time-honoured practice of clock-watching.

The symposium, the first organised by the NYSE in a communist country, is intended to educate the Chinese about the way Wall Street handles money, and teach the New Yorkers about China's economic development and needs, according to Mr Richard Torrenzano, a NYSE spokesman.

"We think it is a very good time to be in China. They have recently improved conditions for foreign investment. They are talking about bankruptcy. They are committed to economic growth and modernisation," Mr Torrenzano explained.

Asked whether the visitors would provide instruction on how to overcome political barriers - advice that would be handy for Chinese reformers hindered by the more conservative party officials - Mr Torrenzano said that the conference would "put politics aside." "We are here to talk about the American system of capital raising."

Perhaps the Chinese system of capital raising will provide some salutary lessons itself. One of the first Chinese factories to raise capital from private citizens was the Tianjin bicycle plant, which is renowned for its Flying Pigeon-brand machine, commonly regarded as the Rolls-Royce of bicycles.

The factory has said it is issuing "shares" worth \$2.5m but purchasers will not have a stake in the company, and private sales of the "shares" are illegal. The attraction is that buyers get tokens entitling them to buy a bicycle and enabling them to jump a long queue.

The first "stock exchange" since communist rule began in 1949 opened several months ago with much fanfare in the northern city of Shenyang. The exchange, which bears a striking resemblance to a British betting shop, has two transaction windows, where bonds are sold. The bonds generate no interest, but buyers are entitled to participate in a draw for an apartment.

Most publicity also surrounded the opening several weeks ago of a Shanghai "stock exchange," although only two companies have received approval from the People's Bank to issue stock at the exchange. Shareholders are restricted to a return of no more than 7.5 per cent in dividends.

The Chinese Government has allowed such ventures as a means of persuading the masses to part with their money. Chinese are reluctant to put money in the bank because of fears for its safety and the Government has tried to get around the psychological block by allowing various banks to issue bonds.

A very senior Chinese financial official conceded that it would be "a very long time" before China has a "real" stock exchange.

Commercial banks which have advanced credits against inflated bull values to hold about \$20bn in bad debts on ships.

Governments, through tax concessions and investment grants, were encouraging speculative investments in the building of new ships, the secretariat noted in its report to Unctad's shipping committee which meets in Geneva today.

Many of these ships were then operated under flags of "open registry" countries such as Liberia and Panama which offer shipowners lower taxes and freedom in the choice of crews.

But, the Unctad secretariat warned, no substantial increase in the volume of international trade, in particular of bulk commodities, could be expected in the foreseeable future. The only way it sees of bringing about a clearer balance between supply and demand in world shipping is to reduce the supply of tonnage.

Unctad said previous attempts at restructuring by major shippingbuilding countries or groups such as the EEC had barely alleviated the situation. Measures taken to meet the special interests of a group of countries or businesses had not been fully effective.

Unctad claims to be the only organisation with worldwide representation tracking shipping and shipbuilding developments. A "fresh and thorough" discussion among all parties under its aegis could provide a catalyst for ideas that could lead to lasting solutions.

Among initial measures put forward by Unctad economists is a scheme for reducing world shipbuilding capacity by 20 per cent.

Both the West German Government and Mr Chirac have issued categorical denials of the Washington Times report. Mr Chirac met Chancellor Kohl in West Germany yesterday but both declined to comment further.

At the very least, the publication of the text is likely to undermine Mr Chirac's credibility in the handling of foreign affairs, while reviving old charges of his hot-headedness and impetuosity.

Coming on the eve of the EEC meeting in London on international terrorism and the prospect that both France and West Germany will support limited sanctions against Syria, Mr Chirac's remarks also show up the contradictions and ambiguity in French official attitudes on the issue. This is likely to be underlined by the opposition in France, and not least by President Mitterrand, who is anxious to exert a stronger influence over foreign affairs.

The most likely explanation of Mr Chirac's gaffe is that he got carried away while talking off the record - as he has been known to do before. In involving the Israelis through the mouth of the West German, his aim was seemingly to minimise the scope of the sanctions against Syria.

Mr Chirac's Government has no wish for strong measures against Syria, which it sees as a key element in French policy in the Lebanon, and in preventing terrorism in France. But Mr Chirac is under strong pressure to take action in support of Britain.

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THE LEX COLUMN No shelter from the storm

LAST WEEK'S Democrat capture of the Senate may make every current assumption about the monumental US tax reform as full of holes as an old-fashioned real estate tax shelter. But that has not stopped the armies of investment professionals doling out advice on every subject from deductions on vacation homes to the earnings of furniture companies.

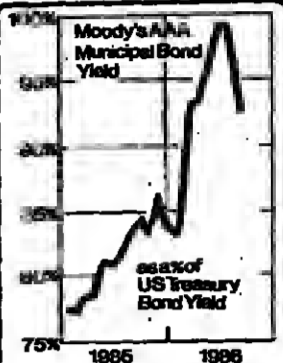
Most of America is aware that the Act is supposed to shift the burden of taxation - to the tune of some \$120bn - from individuals to companies, or rather their shareholders and employees. Tax bands for individuals have been reduced in number and severity, with a top rate of 28 per cent, while the corporate rate will fall from 46 per cent to 34 per cent at the expense of all manner of very generous deductions.

In fact, high-earning individuals will pay a 5 per cent surcharge so the top band is nearer 33 per cent than 29 per cent. IBM is not about to become a partnership. But capital gains will be treated broadly as income for taxation.

The market has had no difficulty at all in churning portfolios out of the sectors expected to lose out (real estate, stocks/casualty insurance, smokes/tobacco and banks) and into the winners from the service industries, retailing, high tech and even tobacco. Relative yields on tax-advantaged bonds were rising as long ago as spring 1985, as the chart shows.

What the market cannot agree about is the big-ticket stuff: whether the reform will truly be neutral in revenue terms or will be rapidly adjusted in deficit-cutting exercises of the Gramm-Rudman type, what will happen to savings and investment and what the national balance-sheet will look like a year or two away after the huge distortions of the transition period.

The most striking thing about the Act is its most un-American dislike of debt. But for the old system of high nominal tax bands, rising interest rates would have hurt America in the early 1980s; but the offset of every sort of interest expense from multiple mortgages to com-



Moody's AAA Municipal Bond Yield and US Treasury Bond Yield from 1978 to 1986.

sumer credit sustained a leveraged culture, exhorting households to gear up to the hilt - the household savings ratio is only just positive - while companies were converting equity into debt in leveraged takeovers or stock repurchase schemes.

Once the new tax rates are phased in and the only deductible household interest is mortgage payments on a mere two houses, there will be less urge for the public to borrow so as to sweet up its after-tax return. Companies might as well pay dividends on their equity rather than gear up on retained profits to offer shareholders capital gains taxed at the same rate.

Falling after-tax rates of return on investment will no doubt make the US economy less resilient to high real interest rates - and borrowing more sensitive to monetary policy.

As the net cost of borrowing rises, companies and households will look more carefully where they invest their money: the retro-active abolition of capital allowances and longer depreciation schedules all round means that steelworks, brocken-winded horseboxes and Upper East Side high-rises have already gone to a discount. Much of the recent merger and acquisition activity in Wall Street may have been brought forward to enjoy the tax boost not only of junk finance but also of depreciating the target company's assets at stepped-up values.

Investors in the industries seen as losers have cried loud in alarm. It may not have been the tax-writer's intention to convert the US from a capital-intensive manufacturing economy into a sort of service paradise, where undepreciable employees are paid a fortune for extracting earnings from fixed capital no more elaborate than a pencil, but the tighter depreciation rules tend to favour labour over capital.

In the case of the most inert form of capital - real estate - the market has now faced up to the monstrous overhang created by the old tax regime. The downward trend in values has been exacerbated, even in the nicest neighbourhoods, as owners scramble to realise their capital gains at the old 20 per cent rate before New Year's Day. Whether such suffering industries as steel and oil and gas should be regarded in the same light is another matter; but it could be argued that they would have adjusted to excess of capital in their markets more efficiently and even less painfully without their tax cushions.

Retirement - The emphasis on current rather than deferred income - even retirement accounts have been hammered - does not sound like a recipe for saving. In the very short term, or rather the rest of this month, the cash from cheap capital gains and the remaining tax privileges on consumption might see a consumer Saturnalia even after the motor-buying spree of the third quarter. Further out, the picnic muddies.

Obviously, rollicking consumption and weak investment would be the worst sort of treatment for the US current account and the currency, but it may well be that the American public will soon wake up to the comparative virtues of saving over borrowing. A pick-up in capacity use will engender corporate investment, tax or no tax. But if people decide that the main offset to higher savings is not to be higher investment but an increased government deficit or a worsening current account, the present tax reform may not last long on Capital Hill - or not without renewed lobbying against that excessive saving which has long been the hallmark of Japan.

International effort sought to solve world shipping crisis

BY WILLIAM DULLFORCE IN GENEVA

A COMBINED assault by governments, shipowners, shipbuilders and bankers on the imbalance between the supply and demand of ships is being called for today by the United Nations Conference on Trade and Development (Unctad).

A decade of scattered national and regional attempts has failed to correct the imbalance. Surplus tonnage last year was still equivalent to 24.3 per cent of the world merchant fleet while world shipbuilding carried an excess capacity of about 40 per cent, the Unctad secretariat said. It also pointed out:

Subsidies to shipyards of between \$4bn and \$5bn a year are continuing to stimulate the ordering of too many new vessels, particularly tankers and dry bulk carriers.

Yards are still signing contracts without any assurance of adequate equity involvement by the orderer or evidence that post-delivery finance has been arranged.

Boost for Kohl in regional elections

BY DAVID MARSH IN BONN

WEST GERMANY'S Opposition Social Democratic Party (SPD) yesterday suffered a crushing defeat in important regional elections in the northern city of Hamburg.

Sizeable gains by the conservative Christian Democratic Union (CDU) - ruling party in the Bonn coalition but in the Opposition in Hamburg for 30 years - last night gave Mr Helmut Kohl, the Chancellor and CDU chairman, another powerful boost in the campaign leading to the country's general elections on January 25.

Last night's results, in which the SPD convincingly lost its absolute majority in the city, look likely to lead to several weeks of complicated coalition negotiations between the SPD and CDU over forming a new government for the Hamburg city-state.

With much of the vote counted, computer projections last night gave the CDU the highest share of the vote with 42.4 per cent, up from 38.6 per cent in the previous Hamburg elections in December 1982. The SPD crumbled to 41.4 per cent from 51.3 per cent.

The anti-nuclear Greens ecology party boosted its share of the vote to 10.4 per cent from 6.8 per cent. However the SPD last night ruled out any question of a Hamburg coalition with the Greens.

The SPD last night looked likely to have 53 seats in the new Hamburg parliament, against 54 for the CDU and 13 for the Greens.

The outcome cruelly underlined a growing dilemma facing the SPD on a national level. It has been severely squeezed in recent months on both right and left flanks between the increasingly self-confident CDU and the Greens - which has turned itself into the natural party of protest against nuclear energy and other symptoms of the German industrial state.

Local issues, including a series of municipal corruption scandals implicating top SPD members, as well as the row over the near-bankrupt Neue Heimat property group, clearly played a strong role in yesterday's Hamburg result.

But the setback in a city regarded as one of the SPD's principal power bases is also likely to be interpreted as another damaging indictment of the leadership style of Mr Johannes Rau, the SPD's candidate for the chancellorship in the January poll.

Chirac row over disclosure

BY DAVID HOUSEGO IN PARIS

MR JACQUES CHIRAC, the French Prime Minister, seems likely to be caught in an embarrassing political row after the decision by the Washington Times to publish the transcript of the off-the-record interview the paper held with him last week.

The transcript confirms Mr Chirac did imply that the Israeli intelligence services were behind the attempt to blow up the El Al airliner in London last April. Mr Chirac - according to the transcript - said that Chancellor Helmut Kohl of West Germany and Mr Hans Dietrich Genscher, the Foreign Minister told him they believed the attempt was a direct provocation by the Israeli services (Mossad), and that the Syrian Government was not involved.

Both the West German Government and Mr Chirac have issued categorical denials of the Washington Times report. Mr Chirac met Chancellor Kohl in West Germany yesterday but both declined to comment further.

At the very least, the publication of the text is likely to undermine Mr Chirac's credibility in the handling of foreign affairs, while reviving old charges of his hot-headedness and impetuosity.

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World Weather

Table with columns for location, temperature, and weather conditions. Locations include London, New York, Tokyo, etc.

Rhine pollution spreads

Water Works ordered cities to stop taking drinking water from the Rhine, advised farmers to keep cattle away from the river and sought to funnel the poisoned spill as quickly as possible to the North Sea.

SAVILLS Property advisors to the following financial institutions in the lead up to Big Bang. List includes Banque Paribas, Barclays Bank, Bear Stearns, etc.

JP 11/10/86

FINANCIAL TIMES

Monday November 10 1986

Fletcher King SURVEYORS, VALUERS COMMERCIAL PROPERTY CONSULTANTS

My golden hello has a poison pill... They won't let me keep my secretary from... Senior Secretaries

INTERNATIONAL BONDS

FRNs struggle to stay afloat

TALK ABOUT reverse floaters and most lead managers spring to attention with complex formulas linking coupons inversely to changes in Libor, much like Thursday's Y8.5m issue for the Nordic Investment Bank, writes Haig Simonian in London.

99.90 bid on Friday afternoon. Meanwhile, Citicorp's perpetual issue was trading at 99.50 to 99.55, helped to some extent by the relatively small number of US bank FRNs. Some dealers suggested its slow start might trigger problems for the entire sector this week.

Insurance broker incurs loss of \$900,000

ALEXANDER and Alexander, the world's second largest insurance broker, reported a third-quarter loss of \$900,000 after taking a \$16.8m charge from discontinued operations.

Wickes buys big textile producer in \$1.16bn deal

WICKES, the US building products and retail group, said it had agreed to acquire Collins & Aikman, a leading producer of textile products, for \$1.16bn in a cash merger.

Burroughs sells Memorex for \$550m

BURROUGHS, the Detroit computer maker, is selling the bulk of its former troubled Memorex computer peripheral operations for \$550m to an investor group which includes several Memorex executives.

Duta property placed under receivership

DUTA, the publicly-listed property company controlled by Datuk Yap Yong Seong, a Malaysian businessman, has been placed in receivership, Reuter reports from Kuala Lumpur.

EURONOTES AND CREDITS

Bankers face still lower facility fees

A FURTHER downward shift in facility fees for Euronote loan facilities seems in prospect following the tight terms announced last week on a \$200m deal for Rhone-Poulenc, the French chemical company, writes Peter Montagu in London.

is now perceived to have been well and truly broken. The level of the facility fee is a key ingredient to the terms of a loan facility as it represents the bread-and-butter return to banks over the life of the deal.

Table with columns: Primary Market, Secondary Market, Cdn, FRN, Other. Rows for US\$, Pw, Oth, Pw.

Bond traders know a thing or two equity traders don't. They know about Euro-clear, the clearing system that expands the possibilities in international securities. And now Euro-clear serves a growing list of international equity markets.

Canadian \$100,000,000 Philip Morris Companies Inc. 9 1/4% Notes Due March 1990. MORGAN GUARANTY LTD. ORION ROYAL BANK LIMITED. SWISS BANK CORPORATION INTERNATIONAL LIMITED.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Re-funding rush hits government bond prices

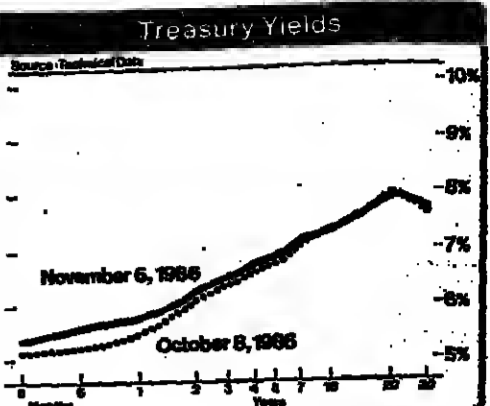
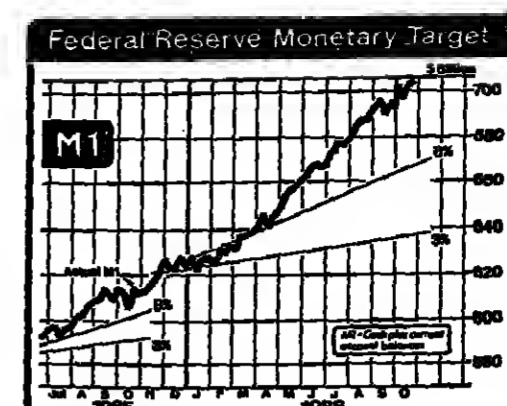
PRICES in the US government bond market fell by more than two points in some cases last week, but traders blamed the sell-off on indications of problems associated with the November re-funding rather than the outcome of the mid-term US congressional elections.

US MONEY MARKET RATES (%) table with columns for instrument, last Friday, 1 week ago, 4 weeks ago, and 12-month low.

Analysts had been expecting a much closer battle for control of the Senate and had also been anticipating that the recent cut in the Japanese discount rate would cause Japanese investors to snap up the lion's share of the US government paper on offer at last week's auctions.

The indignation in the US credit markets was not helped by Friday's news of an unexpectedly large 298,000 increase in on-form payrolls in October following an upward revision in the September figures.

Reserve will probably delay any further interest rate cuts until the new year. Smith Barney, for example, believes that the US gross national product will grow by 2 per cent or less in the first quarter of 1987.



On the political front, the general view on Wall Street is that the election results were a "non-event" in the short-term at least.

UK GILTS

Judgment reserved on Chancellor's strategy

THE UK Government bond market can perhaps be congratulated for avoiding the trap of judging Mr Nigel Lawson's autumn statement on its electoral merits.

Signs suggest that there has been a shift in the priorities of the Organisation of Petroleum Exporting Countries and a serious attempt will now be made to boost prices.

The sense of excited anticipation is rather like that of modern children panting for Christmas presents when Father Christmas appears in department store grottos in mid-October.

is the forecast of 3 1/2 per cent retail price inflation late next year. Embodied in this prediction is one of the most notable assumptions of the autumn statement - that the rise in manufacturing unit labour costs will slow to 2 1/2 per cent next year.

Royal Trust advertisement including logo, company name, issue details (C\$100,000,000, 9 1/2 per cent), and a list of participating banks and financial institutions.

FT/AIBD INTERNATIONAL BOND SERVICE

Large table listing international bond services with columns for issuer, amount, price, and yield.

William Hall

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A/S EKSPORTFINANS
(Foretningsbankenes Finansierings- og Eksportkreditinstitut)

\$100,000,000

7 5/8% Notes due 1993

Goldman Sachs International Corp.

- | | |
|---|--|
| Prudential-Bache Securities International | Banque Indosuez |
| Banque Bruxelles Lambert S.A. | Bergen Bank A/S |
| Christiania Bank (UK) Ltd. | Credit Suisse First Boston Limited |
| Daiwa Europe Limited | Den norske Creditbank |
| Deutsche Bank Capital Markets Limited | IBJ International Limited |
| Kleinwort Benson Limited | Merrill Lynch Capital Markets |
| Morgan Guaranty Ltd | Nomura International Limited |
| Société Générale | Union Bank of Switzerland (Securities) Limited |
| S. G. Warburg Securities | |

September, 1986

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\$200,000,000

7 1/4% Notes due October 16, 1989

Goldman Sachs International Corp.

- | | |
|--|--|
| Citicorp Investment Bank Limited | Daiwa Europe Limited |
| Sumitomo Finance International | |
| Banca Commerciale Italiana | Banca Manusardi e C. |
| Bank für Gemeinwirtschaft Aktiengesellschaft | Bank of Montreal Capital Markets Limited |
| Bank of Tokyo International Limited | Banque Bruxelles Lambert S.A. |
| Crédit Agricole | Crédit Lyonnais |
| Crédit du Nord | Genossenschaftliche Zentralbank AG Vienna |
| IBJ International Limited | Mitsubishi Trust International Limited |
| Mitsui Finance International Limited | Mitsui Trust International Limited |
| Nomura International Limited | Prudential-Bache Securities International |
| Saitama International (Hong Kong) Limited | Takugin International Bank (Europe) S.A. |
| Tokai International Limited | Toyo Trust International Limited |
| Yasuda Trust Europe Limited | |

October, 1986

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The Kingdom of Denmark

\$120,000,000

7 1/4% Bonds due 1996

Goldman Sachs International Corp.

- | | |
|-------------------------------|------------------------------------|
| First Chicago Limited | LTCB International Limited |
| Manufacturers Hanover Limited | Mitsui Trust International Limited |
| Privatbanken A/S | Copenhagen Handelsbank A/S |
| | Den Danske Bank |

October, 1986

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Nippon Telegraph and Telephone Corporation

Can. \$200,000,000

9 3/4% Notes due 1991

Goldman Sachs International Corp.

- | | |
|--|---|
| Daiwa Europe Limited | Sumitomo Trust International Limited |
| Algemene Bank Nederland N.V. | Bank of Tokyo International Limited |
| Banque Paribas Capital Markets Limited | Credit Suisse First Boston Limited |
| Deutsche Bank Capital Markets Limited | DKB International Limited |
| Generale Bank | IBJ International Limited |
| Morgan Guaranty Ltd | The Nikko Securities Co., (Europe) Ltd. |
| Nippon Kangyo Kakumaru (Europe) Limited | Nomura International Limited |
| Orion Royal Bank Limited | Prudential-Bache Securities International |
| Salomon Brothers International Limited | Société Générale |
| Swiss Bank Corporation International Limited | Toronto Dominion International Limited |
| Union Bank of Switzerland (Securities) Limited | S.G. Warburg Securities |
| Wood Gundy Inc. | Yamaichi International (Europe) Limited |
| Yasuda Trust Europe Limited | |

October, 1986

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

SWISS EQUITY WARRANTS

Novel instruments catch on immediately

BY JOHN WICKS IN ZURICH

A NEW concept has been introduced to the Swiss equity market in the past few days - and has caught on immediately. On October 31, EZ Bank Zurich announced the placing of 100,000 covered warrants exchangeable against registered shares of Ciba-Geigy, the Basle chemical company. Within less than a week four similar placements followed and more seemed to be on the way. In each case, shareholders of the companies in question have provided a pool of shares to be frozen on a blocked account until the warrants are exchanged or expire. These shareholders receive the price of the warrant and the eventual price of the share, as well as earning dividends in the meantime and retaining full voting rights. The warrants are going primarily to institutional - and foreign - investors, although growing speculative demand will probably soon put many of them in the hands of individuals at home and abroad. Warrant-holders are entitled to exchange them for shares on a one-

for-one or 10-for-one basis after a given date and at a pre-determined share price. This is higher than present market quotations but will almost certainly be substantially below the price prevailing when the three-year warrants mature. Although the idea of covered warrants is by no means unknown elsewhere, the Swiss version is something special. At least initially, it refers specifically to registered shares, which play an important part in the Swiss stock market but whose ownership is carefully limited. Entries into the corresponding share register are watched over jealously by the issuing companies, particularly with a view to restricting or prohibiting voting rights from passing to foreigners. Such in-built precautions became significant not least during the Second World War and at the time of the massive petrodollar recycling of the 1970s. Although unregistered shareholders do, of course, still receive dividends, probably no more than about 5 per cent of the

number registered-share volume is currently held by foreigners and other unregistered interests (the "unwelcome" Swiss shareholders). The warrants are thus very attractive for foreign investors. Although these will be unable to register any shares purchasable against their warrants, they do have the likelihood of buying shares at a guaranteed price which can be expected to be well below the actual 1986 quotation plus the warrant premium. According to Mr Martin Ebner, one of the founders of the young and innovative EZ Bank Zurich, the registered share warrant has a number of advantages. He sees it as anticipating structural alterations in the Swiss market - where traded options business is to begin in 1988 - and at the same time helping to popularise equities with such Swiss institutional investors as the hitherto ultra-cautious pension funds. This reference to Swiss investors underlines the fact that the shares involved in warrant transactions

will, for registration considerations, doubtless finish up almost entirely in Swiss portfolios. Apart from this, Mr Ebner points to the opportunities for "frustrated" investors in London and other foreign centres who now at least have a chance to ride along with the upwardly mobile registered shares for a couple of years. He says this should also stimulate the prices of registered shares, traditionally well below those of bearer shares of the same company and with an unrealistically high yield. Other banks have also realised the virtues of covered warrants. Swiss Bank Corporation, Credit Suisse and Bank Vontobel all placed warrants last week, as did EZ Bank Zurich in a second series, this time for Nestlé. Union Bank of Switzerland had indicated that it could be interested. Mr Georges Streichenberg, a general manager of Swiss Bank Corporation, points out some possible disadvantages of the covered warrant. The shareholders who deposit

their shares for the duration of the warrant, for example, in effect lose their power to dispose over their holding for the period - and run the risk of having to buy it again in poor market conditions at maturity. Mr Walter Zeller, head of the financial department of Ciba-Geigy, for instance, admits to "certain misgivings." The warrants, he explains, have again raised the old question as to what would occur should a substantial number of registered shares pass to investors unable to be entered into the share register. The Swiss Bankers' Association is also looking at whether it ought to issue some sort of recommendation to members in respect of the sales of registered shares to interests unable to be entered into share registers. At least some sort of warning is thought to be called for. It is also unclear as to whether the existence of the warrants would limit the freedom of companies to issue their own warrants, as necessary in connection with bond borrowings.

GTE set to thwart takeover bid with share repurchase plan

BY CHARLES HODGSON IN NEW YORK

GTE, the US telecommunications and electrical equipment group, has taken action to thwart a possible unfriendly takeover bid by announcing a buy-back of up to 10m shares. The repurchase plan, which accounts for 4.7 per cent of the company's stock and could cost \$200m, follows "unusual share accumulations" in GTE stock on the part of one or more purchasers, according to Mr Theodore Brophy, chairman.

GTE also announced an increase in its quarterly dividend of 10.5 cents to 81.5 cents. The new annual dividend is \$3.68 per common share. Last month the company announced a 12 per cent increase in third quarter net profits to \$225m, or \$1.45 per share. Under the stock repurchase scheme GTE will reacquire its shares from time to time on the open market. The company said it

planned to resell 5m of its repurchased shares to meet the requirements of its employee stock purchase and savings plans. Digital Equipment, the US mini-computer maker, has said it planned to buy back up to 5m common shares on the open market between now and June 1988. The repurchase plan covers about 4 per cent of the company's 120m common shares outstanding.

NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount \$m | Maturity | No. Yrs | Coupon % | Price | Book Runner | Offer Yield % |
|-------------------------------|------------|----------|---------|----------|---------|-------------------------|---------------|
| U.S. DOLLARS | | | | | | | |
| Health Corp. † | 100 | 1991 | 5 | 2 3/4 | 100 | Daiwa Europe | 2.75 |
| Credit Agricole ‡ | 100 | 1991 | 5 | 7 1/4 | 100 1/2 | KLM Paribas | 7.125 |
| Banco de Mexico † | 100 | 1996 | 5 | 7 1/2 | 100 1/2 | Morgan Stanley Inc. | 7.25 |
| Society For Savings (S) (N) † | 100 | 1991 | 5 | 5 1/2 | 100 | Paribas Capital Mkts. | 5.500 |
| Imperial Int. Inc. † | 75 | 1993 | 7 | 3 1/2 | 100 | SEI | 3.500 |
| Sanyo Aluminium † | 40 | 1991 | 5 | (5 1/2) | 100 | Daiwa Europe | 5.125 |
| Yokohama † | 40 | 1991 | 5 | (5 1/2) | 100 | Yanai & Co. (Europe) | 5.125 |
| Brayley Int. Overseas † | 100 | 1991 | 5 | 8 1/2 | 100 1/2 | CBS | 8.125 |
| Province of Alberta † | 500 | 1993 | 7 | (6) | 100 | Morgan Stanley | 7.222 |
| Province of Alberta † | 750 | 1991 | 5 | 7 1/4 | 100 1/2 | Morgan Stanley | 7.222 |
| Chicopee † | 500 | (7) | 5 | (6) | 100 | Gibson Sachs | 6.000 |
| Texas † | 40 | 1991 | 5 | (5 1/2) | 100 | Moody Int. | 5.000 |
| CANADIAN DOLLARS | | | | | | | |
| Commwealth †, 2nd Ast. † | 100 | 1992 | 5 | 8 1/2 | 101 1/2 | URS (Can) | 8.125 |
| Montreal Trust Co. † | 50 | 1991 | 5 | 10 | 101 1/2 | Salomon Brothers | 8.250 |
| C. Inc. & Co. (S. K.) † | 50 | 1991 | 5 | 10 1/4 | 101 | New Japan Sec. (Europe) | 8.250 |
| AUSTRALIAN DOLLARS | | | | | | | |
| Amalg. Fin. of Aust. † | 40 | 1990 | 4 | 14 1/4 | 101 1/2 | Osaka Royal Bank | 14.250 |
| RNH Australia † | 50 | 1990 | 3 | 14 1/4 | 101 1/2 | Salomon Brothers | 13.250 |
| Landsbank Stuttgart † | 35 | 1991 | 5 | 14 | 101 1/2 | Hambros | 13.250 |
| D-MARKS | | | | | | | |
| Setra Corp. † | 100 | 1991 | 5 | 2 1/4 | 100 | Deutsche Bank | 2.250 |
| Kanawad Corp. † | 100 | 1993 | 7 | 2 1/4 | 100 | Deutsche Bank | 2.250 |
| Uyap Aluminium † | 40 | 1991 | 5 | 2 1/4 | 100 | Commerzbank | 2.250 |
| Landesbank Hessen † | 400 | 1991 | 5 | 6 | 112 | Deutsche Bank | 2.250 |
| SWISS FRANCS | | | | | | | |
| Yama Finance † | 30 | 1991 | 5 | 2 1/4 | 100 | Rabotz & Co. (Europe) | 2.250 |
| Tata & Lyle † | 140 | 1993 | 5 | (4) | 100 | Lloyds Bank | 2.250 |
| World Bank † | 700 | 2021 | 5 | 0 | 15 | Credit Suisse | 5.570 |
| World Bank † | 100 | 2011 | 5 | 5 1/4 | 99 1/2 | Credit Suisse | 5.570 |
| Fuji Sanko † | 25 | 1991 | 5 | 2 1/4 | 100 | Swissbank | 2.250 |
| Yokohama † | 200m | 2001 | 5 | 0 | 100 | Swissbank | 2.250 |
| L. F. Rothschild † | 100 | 1993 | 5 | 5 1/4 | 100 1/2 | Chicopee Int. (Ch) | 5.501 |
| Robert Bosch † | 300 | 1991 | 5 | 4 1/4 | 99 1/2 | URS | 4.600 |
| Sanyo Aluminium † | 50 | 1992 | 5 | (1 1/4) | 100 | Rabotz & Co. (Europe) | 4.501 |
| Small Bus. Fin. Corp. † | 100 | 1994 | 5 | 4 1/4 | 100 1/2 | SWC | 4.501 |
| Yamaha Heavy Ind. † | 50 | 1991 | 5 | (2 1/4) | 100 | Credit Suisse | 4.501 |
| First City Finance | 100 | 1994 | 5 | (5 1/4) | 100 | Swiss | 4.501 |
| FRENCH FRANCS | | | | | | | |
| Blanchard Finance † | 500 | 2001 | 15 | 8 1/4 | 100 | Deutsche Bank | 8.275 |
| GUILDER | | | | | | | |
| Commwealth of Aust. † | 400 | 1992 | 5 | 8 1/2 | 100 | Aust | 8.275 |
| DANISH KRONER | | | | | | | |
| Nordic Investment (S) (C) † | 300 | 1991 | 5 | 8 | 100 | Den Danske Bank | 8.200 |
| Nordic Investment (S) (C) † | 300 | 1995 | 5 | 8 | 100 | Den Danske Bank | 8.200 |
| YEN | | | | | | | |
| Nordic Investment (S) (C) † | 0.5m | 1991 | 5 | (4) | 100 1/2 | Nitobe & Co. (S) | 4.501 |

BankAmerica unit sought by consortium

By Alan Friedman in Milan

A CONSORTIUM of 209 banks which are members of the Visa credit card system in Italy has asked the Bank of Italy if it would like to be considered a potential suitor for Banca d'America e d'Italia, the Italian bank subsidiary of the US BankAmerica group. Mr Mario Giglio, managing director of Sardinia's small Banca Popolare di Sassari, said at the weekend, however, that he thought the Italian central bank would probably prefer to see a foreign buyer for the BankAmerica subsidiary. The asking price is around L900bn (\$640m). Mr Giglio said he thought the central bank would not wish to see an outflow of this amount from Italy, which would be the case should an Italian institution acquire the BankAmerica unit. Among the potential buyers of the 58-branch BankAmerica subsidiary are Deutsche Bank, Citicorp, Dresdner Bank, Midland Bank and Banca Commerciale Italia.

Outokumpu set for FM 200m loss in year

BY OLLI VIRTANEN IN HELSINKI

OUTOKUMPU, the Finnish mining and metallurgical company, expects to incur a loss of FM 200m (\$40m) this year in the wake of the dramatic fall in metal prices. In 1985 Outokumpu produced a profit of FM 239m before appropriations and taxes. The result for the first eight months of the year shows a loss of FM 100m before appro-

priations and taxes. Meanwhile consolidated turnover rose by 35 per cent to FM 4.6bn for the period. This is mainly due to acquisition of Metallwerken and Wirsbo Bruk, two Swedish copper refining companies, and Tara Mines of Ireland. The group turnover for the year is expected to grow by 45 per cent to FM 7.3bn from 1985.

Mr Pentti Voutilainen, Outokumpu's president, says that the company had expected this year to be worse than 1985 but was still surprised by the dramatic fall particularly in the prices of nickel and cobalt. "Nokia, Finland's largest privately held company, will sell its industrial electronics to the Finnish company Catalyst, which is controlled by

Professor Pentti Kouri, an advisory director of First Boston and a member of the board of directors of Nokia. The deal includes automation systems for forest industry and energy production as well as instrumentation. Annual turnover of these sectors totals FM 200m and they employ some 500 people. The purchase price has not been disclosed.

Hartogen Manila award

BY SAMUEL SENOREN IN MANILA

HARTOGEN ENERGY, the Australian oil and gas explorer, has been awarded a licence by the Philippine Government covering 1.4m hectares offshore in the south of the country, the first such approval granted by the administration of Mrs Corason Aquino. The operations will mark the resumption of oil exploration in the Philippines which stopped completely in 1984. The project, which will cost about US\$5m, initially involves drilling of one well in conjunc-

Advance at Power Corp.

BY ROBERT GIBBENS IN MONTREAL


POWER CORPORATION of Canada, holding company of Montreal financier Mr Paul Desmarais, and its 70 per cent owned Power Financial Corporation (PFC) have reported higher earnings for the third quarter and nine months. Power Corporation's nine-month net earnings were C\$97.9m (US\$70.5m) or 75 cents a share against C\$92.4m or 70 cents a year earlier. Third-quarter earnings were C\$31m or 23 cents a share against C\$28.6m or 24 cents. These

Advance at Power Corp.

BY ROBERT GIBBENS IN MONTREAL

figures exclude special gains of C\$77.5m, against C\$50.6m, arising from a share issue by a subsidiary. PFC had nine-month earnings of C\$68.4m or C\$1.13 a share against C\$65.1m or 98 cents, before special gains of C\$137m against C\$1.7m, also arising from sale of shares in a subsidiary. Power Financial has been undergoing a restructuring this year. The control of three financial institutions will as a result be held directly by PFC.

All of these securities having been sold, this announcement appears as a matter of record only.



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UK COMPANY NEWS

Lucy Kellaway examines the bid to break up Imperial Continental Gas
Convincing shareholders to stay in

The first time restive shareholders suggested that Imperial Continental Gas Association should be broken up and some of its assets sold, the management, violently opposed to any such scheme, succeeded in convincing the dissenters that their long-term interests were better served by keeping the company in one piece.

However, that was more than 150 years ago and shareholders in 1826 were a pushover, knowing nothing about bid battles, let alone about leveraged buy-outs.

This time the management will have to fight much harder if they are to thwart Gulf Resources, the privatised US company which is trying to buy IC Gas with a view to liquidating about half of its assets.

It could be argued that IC Gas is such a natural for a break-up plan, standing on three legs which barely touch at the top, that it is remarkable that no one had thought of it before.

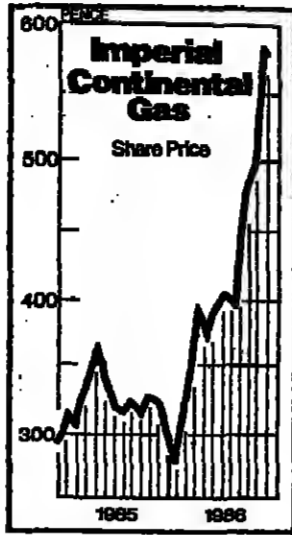
There seems little overlap between its Calor Gas subsidiary, its portfolio of Belgian stakes in Petrofina and three Belgian utilities, and between Century Power and Light, the North Sea oil and gas company, of which IC Gas owns about 60 per cent.

While Burmah Oil, which with its Castrol Oil subsidiary is the nearest stock market equivalent, has been a favourite takeover candidate for more than 10 years, IC Gas has passed unnoticed until about a year ago.

Indeed, with sales of about £500m, IC Gas "may have been the market's largest forgotten stock," says David Gray of James Capel. Until 1980, the City was only dimly aware of the company—information was scarce about its doings. It had a loyal base of steady share-



Mr Michael Rendle, deputy chairman of IC Gas



holders, and the little turnover in the stocks was handled by the company's own brokers.

When the oil started to flow from the North Sea fields in which Century held a stake, City analysts turned their attention to IC Gas for the first time. They found less of an energy group than a steady holding company which over the years had shown almost no appetite for new investments and divestitures.

On the whole things have bumped along peacefully for the company with two exceptions. First it decided to broaden its base, and—against the advice of the City—plunged into the purchase of CompAir, a manufacturer of compressed air equipment. No sooner bought, than CompAir fell into recession, and after a good deal of restructuring was

sold last year for less than IC Gas had paid for it.

The second upset has been the fall in the oil price which has reduced to almost nothing Century's likely contribution to profits. However, this will be offset at least in part by the happy effect of lower oil prices on Calor's gas purchase costs.

The CompAir sale left the company with cash and a publicised intention to try again at establishing a fourth leg to the group. Mr Michael Rendle, an ex-managing director of BP, was brought in and is now leading the search, which he says could involve some kind of branded product, and perhaps something with bases in Europe. So far nothing has been found, and IC Gas is not going to rush into anything.

tunities exist, or to exploit the scope for High Street show-rooms.

As far as Calor itself goes, the record seems easy to defend. On the management of the group as a whole, the case is less clear. If IC Gas missed the top of the oil cycle, then so did everyone else. However, its decision at the top of the cycle to make a major investment in the T block in the North Sea, just before oil prices fell, was an unfortunate one.

However, as the component parts operate more or less autonomously it is difficult to see what contribution is being made by IC Gas itself.

The whole point of the holding company is that there is some value added to the centre, but with IC Gas, this seems to be lacking," says Mr Michael Unsworth of Smith New Court Agency.

Mr Michael Rendle would strongly deny any such claim, arguing that the group is well balanced between upstream (exploration and production) and downstream (selling and distributing oil products). Furthermore, he says that growth has been made possible by the Belgian investments which have provided financial muscle, and put up cash against heavy investment outlays.

However, even Mr Rendle reluctantly admits that the time may have come to sell the investment portfolio. "If our shareholders really want, we can do things to bring some of the cash forward," he says. However, the real task, he says is "to show them that there is more in it for them if they stay in."

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Application has been made to the Council of The Stock Exchange for the whole of the issued share capital of Britannia Security Group PLC (formerly dealt in the Unlisted Securities Market) to be admitted to the Official List. It is expected that dealings will commence on 13th November, 1986.

Listing particulars relating to the Company are available in the Evidential Services and copies of such particulars are also available during normal business hours from the Company Announcements Office of The Stock Exchange until 12th November, 1986 and on any weekday (Saturdays and Bank Holidays excepted) up to and including 24th November, 1986 from:

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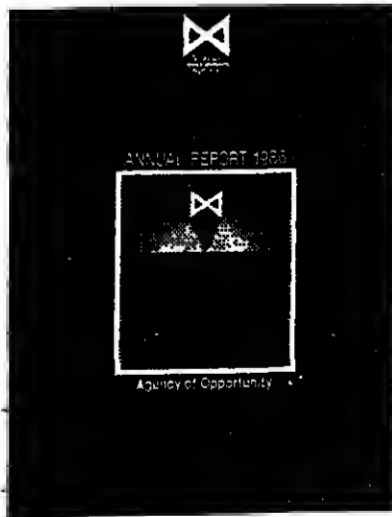
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| | Nov. 7 | Nov. 8 | Nov. 9 | Nov. 10 | Nov. 11 | Nov. 12 | Nov. 13 | Nov. 14 | Nov. 15 | Nov. 16 | Nov. 17 | Nov. 18 | Nov. 19 | Nov. 20 | Nov. 21 | Nov. 22 | Nov. 23 | Nov. 24 | Nov. 25 | Nov. 26 | Nov. 27 | Nov. 28 | Nov. 29 | Nov. 30 | |
|-----------------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--|
| Government Sec. | 82.58 | 83.10 | 83.19 | 83.02 | 83.19 | 82.60 | 94.51 | 80.99 | 127.4 | 49.18 | | | | | | | | | | | | | | | |
| Fixed Interest | 89.02 | 89.15 | 89.15 | 89.11 | 89.15 | 88.87 | 97.68 | 86.35 | 150.4 | 50.53 | | | | | | | | | | | | | | | |
| Ordinary | 1317.2 | 1305.9 | 1296.1 | 1294.3 | 1294.1 | 1288.4 | 1425.9 | 1094.3 | 1425.9 | 49.4 | | | | | | | | | | | | | | | |
| Gold Mines | 300.1 | 291.5 | 300.7 | 281.2 | 271.3 | 277.2 | 357.8 | 185.7 | 734.7 | 43.5 | | | | | | | | | | | | | | | |
| FT-Ad All Share | 822.25 | 815.79 | 813.16 | 810.98 | 811.26 | 807.27 | 832.39 | 644.42 | 832.39 | 61.92 | | | | | | | | | | | | | | | |
| FT-SE 100 | 1662.6 | 1648.5 | 1644.4 | 1637.7 | 1639.2 | 1632.1 | 1717.6 | 1370.1 | 1717.6 | 98.9 | | | | | | | | | | | | | | | |

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UK COMPANY NEWS

Virgin aiming to lead its field

BY TERRY POVEY

MR Richard Branson's Virgin Group plans to become the leading UK-based international media and entertainment group according to the prospectus on its offer-for-sale by tender which is published today.

Through the offer Virgin shareholders expect to raise a total of \$55.6m net of expenses. Up to a maximum of 50m shares are on offer, just under 30 per cent of the expanded capital, at the minimum tender price of \$1.10. Applications for which the minimum is 200 shares, close at 10 am on November 13.

Of the proceeds of the issue, \$38.5m will be used to supply the growing working capital requirements of the group. From the remainder Mr Branson will receive £19.68m, Mr Simon Draper (who is chairman of the music division) obtains £4.45m and Mr Ken Berry (who is managing director of the music division) will get \$706,000. Family trusts in which the three are involved will receive a further \$3.08m.

Founded in 1971, Virgin has grown rapidly from a company selling records by mail order to one which encompasses record companies, recording studios, music publishing, 66 record shops, film and video distribution, and satellite television broadcasting via The Music Channel in which it has a 15 per cent interest.

Over the four years to January 1986, group sales more than tripled to £193m and pre-tax profits on continuing activities rose almost tenfold to £14.9m. For the year to July 31, the new year end, sales were £198.6m and profits £19.1m.

Of the three operating divisions—music, retail and vision—key-in profit terms is music with a turnover in the year to July of £118m, about two-thirds of the group total. The division's contribution to the £21.62m group operating profit before central costs was £20.2m in spite of a £1.5m loss on concert merchandising.

Not all of the leisure and entertainment activities associated with Mr Branson, who presently owns 85 per cent of Virgin's ordinary shares, are to be included in the flotation.

First, development and production finance for films have been discontinued.

Second, Virgin Atlantic Airlines plus associated small freight and four operating businesses and the London night clubs and discotheques have been stripped out from the group and were recently injected into a new private company, Voyager—which is to be owned by Mr Branson, Mr Draper and Mr Berry.

The two-plane airline lost £2.8m in the year to July and wrote off £2.14m of start-up costs in 1984-85. Losses at the companies now constituting Voyager totalled £5.1m in pre-tax to July.

brokers who freely admit that they would not know one act in the Top Ten from another, are enthusiastic to obtain shares in the tender and as long as the striking price stays around the 150p level, there should be enough momentum left from the publicity campaign to ensure a healthy aftermarket—at least so the advisers must be ardently praying. However, the "former activities" also point up the risks any leisure entrepreneur runs. The stripping out of Voyager, the closure of film finance and the sale of the island improves the quality of earnings radically and will, hopefully, also ease the tax charge a bit. Virgin as floated has as its core a well diversified music rights business with a strong back catalogue from which to issue endless greatest hits albums on compact disc and there has to be lots of upside on the to date dull UK retailing operation.

Mr Richard King, chairman, acknowledged the group's substantial losses and said that 1986 was proving to be a most difficult year. However, as a result of rationalisation and the programme of disposals, borrowings had been substantially reduced to £5.3m as of October 31 from £11m on May 23 1986.

Mr King added that he was confident that the major problems would be put behind the company during the course of this year and he expected the group to return to profitability in 1987.

Fergabrook paid no tax and losses per 20p ordinary share came to 5.49p (profit 2.13p). An unchanged interim of 1.2p will be paid.

LCP bid battle starts to hot up

By Nikki Tak

The £133m bid battle for Midlands-based LCP Holdings is starting to hot up. Predator Ward White has disclosed that it is in negotiations with a US motor accessories stores group and LCP is claiming that the bid will overstretch Ward White's balance sheet.

Ward White, whose UK interests range from the Owen Owen department stores to motor accessories retailer Halfords, confirmed yesterday that it is talking to the privately-owned Discount Auto parts chain in Florida. The company has some 65 outlets, annual profits of around \$4m, and Ward White is considering paying around \$50m cash.

Mr David Rhead, chairman of LCP, is writing to Ward White shareholders, urging them to vote against the bid—and the necessary increase in Ward White paper—at the EGM in ten days' time.

Ward White's gearing, claims LCP, is currently running at around 80 per cent and funding further expansion could overstretch the group.

Mr Rhead accuses Ward White of having no clear plans for LCP's UK based businesses and claims that the managers of its US motor accessories business, Whitlock, are profoundly disturbed by the bid.

USM float puts value of £21m on TSB (CI)

BY ALICE RAWSTHORN

THE PROSPECTUS is published today for the flotation on the USM of the Trustee Savings Bank (Chunnel Islands), hitherto a wholly owned subsidiary of the TSB Group. It will have a value of £21m.

The flotation has been structured to encourage account holders of the bank—which operates from nine branches in the Channel Islands—to buy shares. The issue has been heavily advertised on the Islands and 50 per cent of the shares has been set aside for account holders with priority applications.

In the offer the bank will issue 13.36m shares at 70p each, with an additional 1.33m reserved for a one-for-10 loyalty bonus three years hence. There are 49 per cent of the bank's equity will be in public issue; its parent bank, the TSB Group, will also keep all the capital raised by the flotation.

The directors forecast pre-tax profits of \$5.45m for the current year producing a prospective p/e of 4.9—compared with the original 7.68 for the TSB Group—and a gross prospective yield of 7 per cent.

Channel Islands residents will pay 20 per cent income tax on their dividend income—the national gross dividend for the last financial year was 4.5p while UK residents will pay 20 per cent tax in the Channel Islands and will then be taxed fully on the net figure in the UK.

Lesard Brothers (Jersey) is the merchant bank to the issue with Moore Gwynett (Channel Islands), Le Maurier James & Chinn and Rowe & Pitman as stockbrokers.

pective net assets of £31m; profits have risen steadily through the 1980s save for one suspicious lull in 1982-83, which turns out to be the innocuous product of profitable gifts trading; and the bank can claim the dual benefit of a well heeled customer base—more than half the Channel Islands hold accounts—and implicit interests in commercial and offshore banking, where the profits have only just started to roll in. The issue has been devised primarily to appeal to Channel Islanders, who tend to be partial to things financial and rarely come across opportunities for investment in home grown companies. The Islanders are being tempted by a prospective yield of seven per cent. Mainlanders—the gross yield tumbles to 5.6 per cent, but even that is a better bet than the 4.5 per cent currently on offer from the TSB itself.

comment

The decision to treat the TSB (Channel Islands) to a separate flotation is purely political, but it has produced an interesting specimen. The bank will be capitalised at £21m on pro-

Sedgwick US disposal

Fred S. James, the North American retail subsidiary of Sedgwick Group, the London-based insurance and reinsurance broker, has sold for £17.6m (\$25.1m) its Utah benefit claims handling operation, James Benefits.

James Benefits made a pre-tax profit in 1985 of \$80,000.

Sedgwick, which made £124m pre-tax profit last year, described its last night as a big volume, low-profit margin computer intensive business handling medical benefits claims on behalf of large self-insured US institutions.

The buyer is Alta Health Strategies of Salt Lake City.

Fergabrook £2m loss

Fergabrook Group, the distributor of toys and home improvement, garden and domestic hardware products, saw last time's first half profits of £297,000 slump to a loss of £2.2m in the six months to June 30 1986. Earnings per share 1.7p (1p) after tax £109,000 (\$90,000). Increased dividend anticipated for the year (0.75p) USM-quoted.

result of rationalisation and the programme of disposals, borrowings had been substantially reduced to £5.3m as of October 31 from £11m on May 23 1986.

Mr King added that he was confident that the major problems would be put behind the company during the course of this year and he expected the group to return to profitability in 1987.

Fergabrook paid no tax and losses per 20p ordinary share came to 5.49p (profit 2.13p). An unchanged interim of 1.2p will be paid.

GRANVILLE SPONSORED SECURITIES

| Capitalist | Company | Price on week div. (p) | % Change | Gross Yield | P/E | Fully |
|------------|----------------------------|------------------------|----------|-------------|------|-------|
| 4,522 | Ass. Brit. Ind. CULS... | 135 | +4 | 10.0 | 7.4 | — |
| 976 | Armstrong & Rhodes... | 280 | +1 | 4.2 | 10.8 | 5.5 |
| 6,830 | BBS Design (USA)... | 14 | +1 | 1.1 | 18.2 | 19.2 |
| 64,937 | Barclay Hill... | 202 | +1 | 4.8 | 2.3 | 23.0 |
| 4,863 | Bry Technology... | 88 | +1 | 4.3 | 4.9 | 10.4 |
| 385 | CLC... | 110 | +1 | 2.9 | 2.8 | 7.6 |
| 1,250 | CLC 11pc Conv. Pref. 100 | +8 | — | 15.7 | 15.7 | — |
| 18,257 | Carbondom Ind. 250 | +1 | — | 9.1 | 3.8 | 12.3 |
| 63 | Carbondom 7.5pc 50 | +1 | — | 16.7 | 16.7 | — |
| 3,178 | Frederick Perker Group 15 | +2 | — | 3.8 | 4.2 | 6.1 |
| 1,679 | George Blair 80 | +2 | — | 4.0 | 6.7 | 8.6 |
| 3,268 | Ind. Precision Castings 35 | +2 | — | 18.3 | 12.0 | 8.7 |
| 12,108 | Iels Group 12 | +1 | — | 1.9 | 4.8 | 8.7 |
| 6,896 | Jackson Group 124 | +2 | — | 1.9 | 4.8 | 10.3 |
| 51,410 | James Burroughs 387 | +8 | — | 12.9 | 13.7 | — |
| 3,282 | James Burroughs 90p 11 | +1 | — | 12.9 | 13.7 | — |
| 62,181 | Multihouse NV (AmS) 80 | — | — | — | — | — |
| 8,717 | Record Highway 100 | — | — | — | — | — |
| 2,348 | Record Highway 100pc 87 | — | — | 14.1 | 16.2 | — |
| 867 | Robert Jenkins 35 | — | — | — | — | — |
| 3,268 | Scrittum A 35 | — | — | — | — | — |
| 1,420 | Torday & Carlisle 128 | +5 | — | 5.7 | 4.5 | 7.8 |
| 1,480 | Troyon Holdings 52 | — | — | 7.8 | 2.5 | 8.5 |
| 1,202 | Unilock Holdings 32 | — | — | 2.8 | 4.2 | 12.3 |
| 26,808 | Water Alexander 397 | +3 | — | 5.0 | 5.0 | 8.5 |
| 4,528 | W. S. Ventus 197 | — | — | 71.4 | 8.8 | 19.7 |
| 4,071 | W. S. Ventus 36 | +2 | — | 5.4 | 5.8 | 13.7 |

Granville & Company Limited
8 Lovat Lane, London EC3R 8BP
Telephone 01-621 1212
Member of FIMBRA

Granville Davis Coleman Limited
27 Lovat Lane, London EC3R 8DT
Telephone 01-621 1212
Member of the Stock Exchange

COMPANY NEWS IN BRIEF

HEALTH CARE Services (Hospital and residential homes): Pre-tax profit £311,000 (£205,000) on turnover of £4.64m (£3.47m) for six months to September 30 1986. Earnings per share 1.7p (1p) after tax £109,000 (\$90,000). Increased dividend anticipated for the year (0.75p) USM-quoted.

FLOYD OIL PARTICIPATION (oil and gas explorer): Year to June 30 1986, turnover £2.05m (£4.34m). Interim dividend 0.64p (0.58p). Turnover £1.05m (£871,732) and pre-tax profit £294,231 (£283,686) for half-year ending July 31 1986. Earnings per 10p share 2.51p (2.4p) after tax £105,433 (£103,580). USM-quoted.

A. GOLDBERG (department stores)—Turnover for half year ended September 27, 1986 was £19.18m (£16.18m) and trading profit £882,000 (£892,000) at this time allowing for £188,000

loss for acquired Virgo units. Associate £475,000 (£814,000) (a subsidiary) and pre-tax profit £465,000 (£424,000). All Virgo stores refurbished and integrated into Wrycres division, and showing improvement and trading profitability.

KEYSTONE INVESTMENT—Average year ended September 30 1986 came to £1.22m (£1.11m previous 11 months) before tax £430,000 (£346,000). Investment income £1.57m (£1.25m). Earnings 5.48p (5.32p) per share and final dividend 3.5p for net total of 8.98p after scrip adjustment. Net asset value at September 30, was 34.5p (adjusted 237p a year earlier).

F.T. Share Information
The following securities have been added to the Share Information Service:
Group Development Capital Trust (Section: Trusts, Finance, Land).
Security Tag Systems (Electricals).

SHARE STAKES

CHANGES in company share stakes announced over the past week include:

J. W. Spear — A. T. Vernon Investments (a Canadian company), has an interest in 207,000 ordinary (5.13 per cent). It is a private holding company of which Mr. A. T. Vernon is sole shareholder. Mr. Vernon is a director of Spear.

Udo Holdings — Director M. J. Wright disposed of 25,000 shares on November 3 and 85,000 on November 5. Beneficial holding now 300,000.

Crystalate Holdings — On October 31 the following directors sold shares: P. F. Deacon 17,750—he now holds 30,100; R. A. Opperman 11,000—he now holds 60,250.

Midland Bank plc
(Incorporated in England with limited liability)

250,000,000
Subordinated Floating Rate Notes 2001

Notice is hereby given that the Rate of Interest has been fixed at 11.225% p.a. and that the interest payable on the relevant Interest Payment Date, February 9, 1987 against Coupon No. 3 in respect of £50,000 nominal of the Notes will be £1,445.41, and in respect of £50,000 nominal of the Notes will be £1,445.41.

November 10, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank **CITIBANK**

I.G. INDEX
FT for November
1,807-1,313 (+2)
Tel: 01-628 5699

Den Danske Bank
at 1871 Akerskøb
(Incorporated in Denmark with limited liability)

U.S. \$100,000,000

Perpetual Subordinated Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that the interest payable on the relevant Interest Payment Date, 11 May 1987, will be US\$187.

19 November 1986
THE CHASE MANHATTAN BANK N.A.
LONDON AGENT BANK

Allied London Properties
growing in every way

- * Net Rents up 29% to £6m
- * Dividends up 25% to 1.75p per ordinary share
- * Profits up 21% to £4.053m
- * Net asset value 114p per ordinary share
- * Valuation of properties £83.1m (£78.2m)

Allied London Properties Plc
Allied House 26 Manchester Square London W1M 6EU.

1986 Annual Report

Den Danske Bank
at 1871 Akerskøb
(Incorporated in Denmark with limited liability)

U.S. \$100,000,000

Perpetual Subordinated Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that the interest payable on the relevant Interest Payment Date, 11 May 1987, will be US\$187.

19 November 1986
THE CHASE MANHATTAN BANK N.A.
LONDON AGENT BANK

GARTMORE EUROPEAN INVESTMENT TRUST p.l.c.
(Incorporated in England with limited liability)

Issue of 850,000 Warrants to Subscribe for Ordinary Shares of 50p in Gartmore European Investment Trust p.l.c.

The above mentioned securities have been admitted to the Official List of the Stock Exchange.

Particulars of the Warrants are available in the statistical services of Eurol Statistical Services Limited. Copies of the Listing Particulars relating to the Warrants may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 24th November, 1986 from:

Gartmore European Investment Trust p.l.c., 2 St Mary Axe, London EC3A 8BP,
Gartmore Investment Management Limited, 2 St Mary Axe, London EC3A 8BP,
de Zoete & Bevan, Rbgbate House, 2 Swan Lane, London EC4,
Company Announcements Office, The Stock Exchange, Throgmorton Street, London EC2P 2BT (for collection only until 12th November 1986).

Gartmore
GARTMORE INVESTMENT MANAGEMENT LIMITED

1986 November 2086

London & Northern stake

A CONCERT party, comprising for companies, announced that it had built up a 5.54 per cent stake in London & Northern, the construction, energy service and health-care company — but added that the concert agreement on longer exists.

The 6.15m shares were acquired by Technology Finance, Teak, Dumenil Unit Trust Management and Quintex Company, and held through three nominee companies including MIM Nominees.

However, the companies said they have since ceased to be party to an agreement, and hence no longer have a notified interest.

Recent developments have suggested that London & Northern, which recently reported a sharp downturn in interim profits, could face a takeover bid from Mr Peter Earl's Infocorp, possibly in conjunction with MIM.

On Friday London & Northern said that Mr Earl had been in contact with the company in connection with the concert party interest, but refused to elaborate further. Mr Earl was not available for comment.

November 10, 1986

Bancomer
Sociedad Nacional de Crédito
(Incorporated in the United Mexican States with limited liability)

Formerly

Bancomer, S.A.
U.S. \$60,000,000
Subordinated Floating Rate Notes due 1986-1990

Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the six month interest period, November 12, 1986 to May 12, 1987 the Notes will carry an interest rate of 6 1/4% per annum. On May 12, 1987 interest of US\$126,951,989 will be due per US\$4,000 Note against coupon No. 10.

Agent Bank
ORION ROYAL BANK LIMITED
A member of The Royal Bank of Canada Group

Notice of Redemption
U.S. \$125,000,000

Banco Exterior de España, S.A.
(Incorporated with limited liability in Spain)

NOTICE IS HEREBY GIVEN that pursuant to Condition (b) of the Notes Banco Exterior Internacional Limited has elected to redeem on December 23, 1986 (the "Redemption Date") all of its outstanding Guaranteed Floating Rate Notes due 1996 (the "Notes") at a redemption price equal to the principal amount thereof plus interest accrued to the Redemption Date. On and after the Redemption Date, interest on the Notes will cease to accrue.

The Notes should be presented and surrendered to the paying agents as shown on the Notes on the Redemption Date with all interest coupons remaining subsequent to said date. Coupons due December 23, 1986 should be detached and presented for payment in the usual manner.

November 10, 1986, London
By: Citibank, N.A. (CSSI Dept.), Principal Paying Agent **CITIBANK**

Drexel Burnham Lambert
Equities Limited
Members of The Stock Exchange, London.

DBLE

Contact:
Brian Palmer Philip Thomas
01.638.6391 • 01.920.9986

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Winchester House, 77 London Wall, London EC2N 1BE

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FINANCIAL TIMES SURVEY

Monday November 10 1986

Cayman Islands

This British Crown colony has grown wealthy on tourism and financial services. Through a new agreement with the US, it is taking steps to remain a respectable offshore centre

Envy of its neighbours

Survey by David Lemon

TO THE financial world Cayman means an offshore financial centre and tax haven. To the tourist it means a relaxing tropical island offering wonderful coral life for the diving enthusiast. For the people of the islands it means, at long last, a prosperous home from which they no longer have to sail in search of a living.

Until 20 years ago times were hard on Grand Cayman and its ancillary islands Cayman Brac and Little Cayman. Employment was scarce, the future looked bleak and the air was thick with mosquitoes.

Today Cayman is a major offshore financial centre with 18,700 companies, 500 banks and over 320 insurance firms registered. The capital, George Town, can probably claim as many banks, lawyers and telephones per head of population than any city on earth.

This year more than 400,000 tourists will flock to the islands to enjoy the translucent seas and beautiful beaches undisturbed by the mosquitoes, which have been brought under control by a vigorous eradication programme.

Financial services and tourism are the twin pillars of the economy and between them they provide the 20,000 inhabitants with full employment. In spite of the on-rush of affluence, the Caymans remain easy-going and charming.

A British Crown Colony with a Governor appointed by the Queen, the Cayman has experienced none of the racial tension or political upheavals which have blighted some of the other Caribbean islands. This political stability, plus its proximity to the US, is one of the key reasons for continued economic growth.

The basis of this modern wealth is the absence of taxation and the confidentiality laws, which has attracted the business, commercial and financial community. Originally regarded as a haven for tax dodgers and money launderers, today it is determined to shake off this shady past.

The days when men with suitcases stuffed with cash were welcomed with open arms by the George Town banks, are a thing of the past. Anyone trying to deposit more than \$10,000 in cash today will be turned away.

The tax authorities in Washington may still regard it as a den of crooks aiding and abetting US tax dodgers, but the islands' self-image is of a respectable offshore financial centre providing a legitimate service in a world where business and finance is increasingly transnational.

To underline this new image, the authorities point to the Narcotics Agreement of 1984 under which the Cayman agreed to lift the confidentiality regulations in cases concerning people or companies suspected of involvement in drug dealing. Notwithstanding the withdrawal of some funds at that time and a slowdown in the registration of new companies, business is today better than ever.

There is less agreement over the Mutual Assistance Treaty just worked out between the US and, on behalf of Cayman, the UK. It widens the gap in the veil of secrecy opened up by the Narco Agreement to a point which some fear endangers the islands' future as a financial centre.

The Mutual Assistance Treaty is designed to help the US in the investigation, prosecution and suppression of a range of criminal offences, including narcotics trafficking, insider trading, fraud, bribery of foreign officials and the catch-all concept of racketeering.

The islands' officials insist that the main achievement of the treaty is that it puts an end to the subpoena serving and other forms of harassment to which Cayman businessmen were subjected previously. In future all requests for information have to be dealt with through orderly, legal channels.

This aspect is welcomed by George Town's financial and business community, but at the same time some are worried about the failure of the Treaty to protect them against accusations over past transgressions—known or unknown.

They fear that the probing by the US administration will leave them vulnerable to prosecution for having handled the affairs of people whom they believed to be legitimate businessmen and investors, but whom prolonged and costly investigation revealed to be less than upright citizens.

The Opposition in the Legislative Assembly has seized upon the Treaty as an opportunity to try to unseat the Government and force new elections. The main theme of the Opposition's argument is that it will destroy the tax haven economy because it robs invest-

ors of the guarantee of confidentiality which is a key attraction. A petition outlining a series of objections was circulated calling on the British Government to delay ratification of the treaty until the electorate can be given an opportunity to express its views either through a referendum or the holding of a new general election.

This behaviour is being denounced as political chicanery, sedition and rank opportunism by the supporters of the treaty. Their key arguments are that acceptance of the treaty underlines the determination of the Cayman authorities finally to rid the islands of their negative image as a haven for drug funds and a centre for laundering mob money.

Unspoken is the fact that the Cayman had little choice in the matter because in the often used image of a mouse holding discussions with an elephant, the alternative to agreement is unthinkable.

Some amend the imagery to paint the Cayman as a mouse being squeezed between two elephants—the US and the UK. The role of London, which critics say succumbed to pressure from Washington over the drug and mob money haven elements, is seen by these people as a major argument for consideration of independ-

ence as a political alternative to the current constitutional arrangement. But it is doubtful that there would be a majority in the islands in favour of independence from Britain. Indeed, a UN committee which visited Cayman a few years ago found that there was no support for ending its colonial status.

The islands are fiercely pro-British and contributed \$500,000 to a fund to aid the Falklands at the time of the Argentine invasion. This British patriotism remains strong in spite of the fact that Cayman is geographically, economically and socially much more closely involved with the US.

The American influence laid over a British basis leads to anomalies such as traffic driving on the left side of the road, while most of the cars are left-hand drive models intended for use in the US where traffic moves on the right.

The school system is British, with the ordinary and advanced level GCE exams but the dominant influence on the local accents is American. The Caymans do not need a passport to enter the US, but they do for Britain.

Nonetheless, the people of the Islands are pleased by the military and political protection afforded them by being a British dependency. They believe the link lends an air of respectability to Cayman's financial dealings, and it clearly has helped ensure an orderly administration which to a large extent has avoided the corruption and bribes which has arisen in other Caribbean states.

Aware of the fragile nature of its two main sources of revenue, and the fact that outside factors could adversely affect them, the Government is devoting considerable efforts and investment to improving the islands' infrastructure.

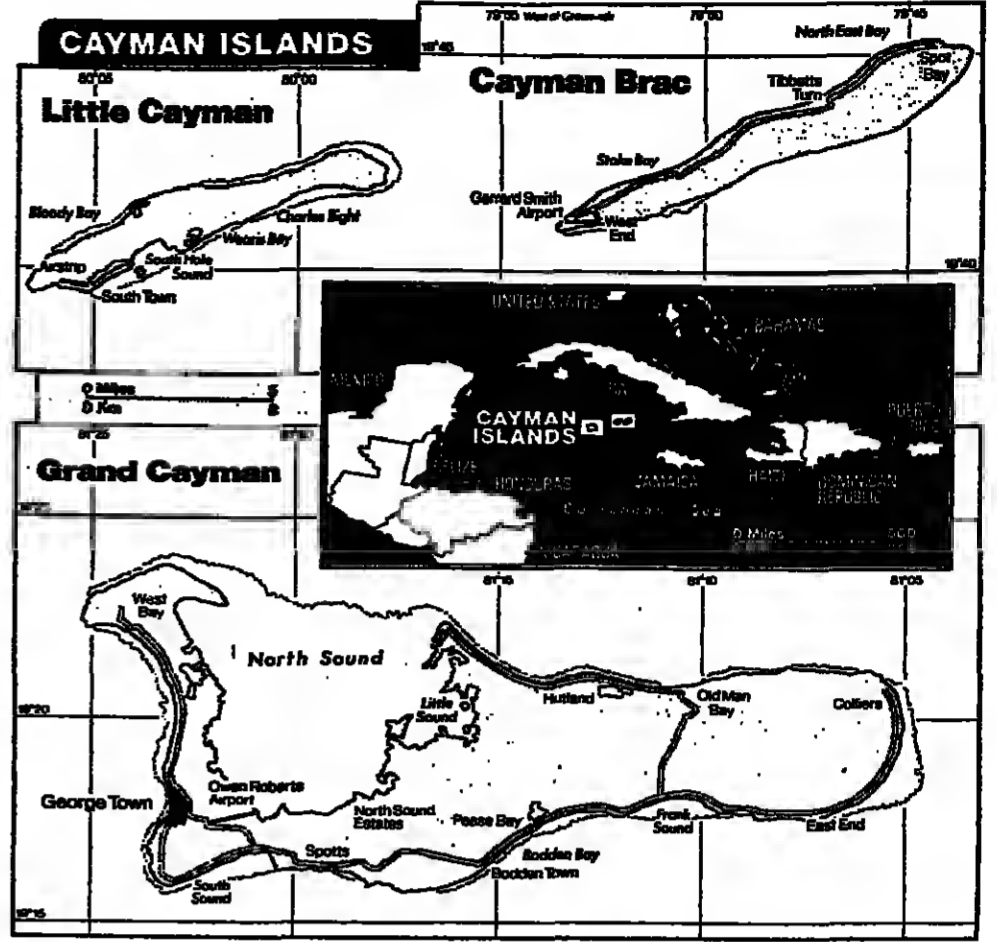
This is reflected in the 1986 Budget, which is a record C\$269.3m, compared with C\$160.9m last year. This growth results mainly from the increased spending on infrastructure projects such as the West Bay sewerage scheme, a new water desalination plant, im-

provements to the airport on Grand Cayman and the construction of a new terminal at Cayman Brac airport. British companies such as Hadsphallic are major beneficiaries of these projects.

The main items of current expenditure are the salaries and the running costs of the Administration. One example of the determination of the Government to ensure that the population derives long-term benefits from the dramatic economic improvement over two decades is the spending of C\$7.3m on education.

Because the islands have to import virtually all consumer goods, the largest single source of revenue, some C\$22.5m, comes from the hefty customs duties which are to a large extent responsible for the cost of living being some 20 per cent higher than in the US.

The registration and annual fees paid by the companies, banks and insurance concerns utilising the Cayman as an offshore financial centre are pro-



viding C\$13.2m this year. The tourist tax on hotel bills plus the airport departure tax will raise a further C\$4m, while just over C\$7m will come from conveyancing and work permit fees.

Prosperity has given the Cayman Islanders one of the highest per capita income levels in the Caribbean, estimated at about C\$5,000. It has also led to a major improvement in educational standards.

But these changes have led to questions such as whether the education is wasted in producing beach boys and chamber maids. Some also query the rapid pace of development and its sometimes adverse effect on family life and the environment.

The fact that the Caymans are concerned about the sort of issues which trouble affluent societies underlines what a remarkable success story Cayman is, and why it is the envy of many Caribbean neighbours.

KEY FACTS
Three islands, Grand Cayman, Cayman Brac and Little Cayman cover 100 sq miles in the north-west Caribbean 480 miles south of Miami and 180 miles west of Jamaica.
Government: British Crown Colony with Governor appointed by the Queen. Elections are held every four years to a Legislative Assembly which comprises 12 elected and three appointed members. Rule is by the Executive Council of four elected and three appointed members.
Population: 20,000 (approx.)
Capital: George Town, Grand Cayman
Budget: C\$269.3m (1986).
GNP per capita: C\$5,000 (approx.)
Currency: Cayman Dollar
Language: English
Sources of income: Financial services and tourism.

PIERSON, HELDRING & PIERSON NV, Amsterdam, The Netherlands

Merchant Bankers Since 1875
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DUTCH MERCHANT BANK IN THE CAYMAN ISLANDS,
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For information concerning specific services, please communicate with

John M. Rea, Managing Director.
Mailing address: P.O. Box 92, Grand Cayman,
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- Tokyo
- U.S. Virgin Islands

FOREIGN PARTICIPATIONS:

- Bank Oppenheim Pierson International S.A., Luxembourg
- Bank Oppenheim (Schweiz) A.G., Zurich
- DP Asset Management Inc., Wilmington, Delaware
- Pierson Sal Oppenheim Inc., New York



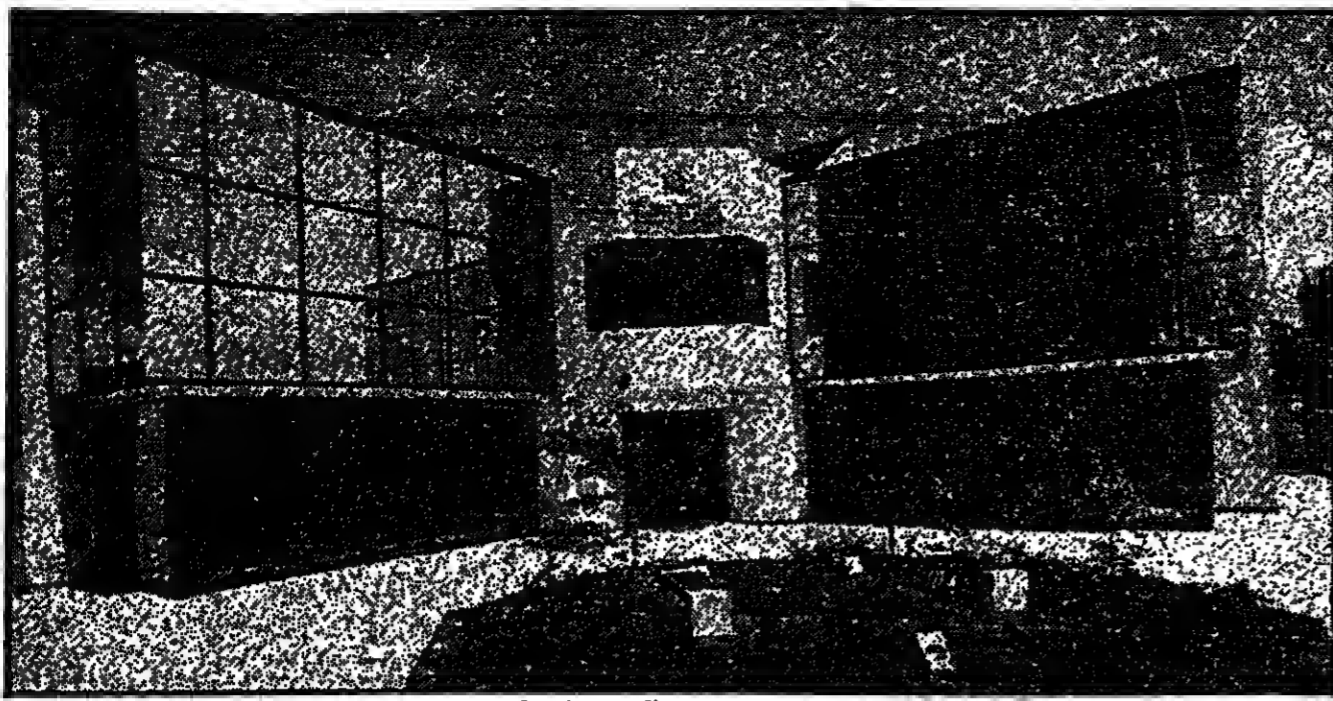
Only one bank in Cayman can say this

As our name suggests, Cayman National Bank is Cayman's own bank serving the islands of Grand Cayman and Cayman Brac. CNB is part of the Cayman National Group, which offers trustee and corporate management services through Cayman Overseas Trust; securities brokerage through Cayman Securities; and insurance through Cayman General Insurance. Whatever your financial needs in the Caymans - we're the local experts. Cayman National Bank & Trust Co.

Ltd. is not covered by the Deposit Protection Scheme under the Banking Act 1979. For more details and/or a copy of our annual report please write to: Cayman National Bank & Trust Co. Ltd., PO Box 1097, Grand Cayman, B.W.I. Telephone: (809) 949-4655. Telex: CP4313.



Caymans bank on CNB



One of the modern banking offices springing up in George Town

Banking

Big operators bring reassurance

A NEW landmark for the Cayman Islands as a banking centre will be reached by the end of this year when the number of banks registered hits 500. This includes 20 of the world's 25 largest banks and is seen locally as a source of reassurance in a time of new challenges.

Originally the business was dominated by the US banks, but over the past two or three years there has been a steady growth from the Far East and Latin America, according to Mr Peter Crook, the Inspector of Banks and Trust Companies. The world's two largest banks, Dai-ichi Kangy and Fuji received licences this summer.

The fact that the big banks are present is offered as proof that this is a legitimate offshore financial services centre, and not just a money laundering and tax evasion haven. The willingness of the banking fraternity to accept the provisions of the Mutual Assistance Treaty is offered as further evidence of probity.

Even the fact that the once inviolate banking secrecy is now a thing of the past does not fill the banking community with dismay. The tax-free and well-supervised environment, political stability, good communications and a wide range of professional services, plus being in the same time zone as New York are seen as sufficient

attractions to keep business buoyant.

"In the early days, when we were eager to attract business, we mistakenly regarded some of the business that came here as clean, when it was not," admits Mr Vassel Johnson, a member of the ruling executive council who was Financial Secretary during the years the Cayman was developing as a financial centre.

"Being new to the business, we thought that every financial centre had a mixture of clean, murky and dirty money. What we learned was that anyone walking around with money in suitcases was not a legitimate businessman," he says, not denying that dubious looking characters with suitcases full of money were once welcomed.

"There has been an evolution in offshore financial operations since the wild west days of the early 1970s," says Mr Peter Tomkins, president of the Bankers Association and the Cayman National Bank. "We have shed the 'criminal' business, and have minimised the chances of getting off-colour business."

Another official says that it is being made increasingly difficult to launder money on the Cayman. One important measure was the decision by the banks not to accept cash deposits in excess of US\$10,000. "I cannot say it does not

happen," the official admits.

"But it is far less so than in other places." Well established as a significant offshore banking centre, the Cayman books some 7 per cent of the Euro-dollar trade. The volume of business has risen steadily and total foreign assets of the registered banks are estimated to be \$172bn.

"The big benefits to the islands' economy come not from the brass plate operations, but from the 55 banks operating with a physical presence. Their direct expenditures this year is C\$35m (\$36.5m). Some CIBs is paid in salaries to the 900 employees, more than 75 per cent of them Caymanians. The contribution to GDP, both direct and indirect, is considerable.

Some of the Euro-dollar business may have been diverted from the Cayman by the creation in the US of international banking facilities (IBF) which allow US domestic banks to conduct their international business within these facilities instead of from offshore. But bankers on the island say the IBF enterprise has met with only limited success as many of the banks view the IBFs as artificial creations which could be the victims of a change of domestic policies.

It is difficult to accurately assess the impact of the IBFs, especially as any loss may have been offset by other factors

such as the relaxation of the Swiss secrecy laws and the flight of capital from South and Latin America.

The delicate nature of the business and its vulnerability to forces outside the control of Cayman leads some people to argue that the future of the Crown colony must lie in tourism rather than financial services.

Their concern is that the break in banking secrecy which began with the 1984 Narcotics Agreement and which has been reinforced by the 1986 treaty could well be followed by further measures which will make even tax avoidance money subject to scrutiny. At that point they believe the offshore business will dwindle and lose much of its significance for Cayman.

However, this is regarded as unduly pessimistic by other bankers who argue that drug and criminal money was never more than a tiny fraction of the business being handled in George Town. That business has already been driven away by the Narcotics Agreement and the treaty, yet business is booming.

They are banking on the Cayman's new "squeaky clean" image to bring in all those who previously were afraid to be associated with any place tainted by drug and racketeering money.

Tourism

Prosperity may hinge on leisure

TOURISM is the Cayman's major source of foreign exchange, bringing in US\$70m last year. It has already surpassed the financial sector as the largest single source of employment on the island and many believe the future prosperity of the Cayman depends ultimately upon tourism.

This means the promotional slogan: "The Cayman is Not For Everyone" used in the past to emphasise tranquillity and the no-neon, no-night life and no-gambling reality has to be dropped. The message seen on Miami billboards this summer reads with truthful simplicity: "Cayman Islands Quiet."

This year more than 400,000 tourists will sample the sun, sea, sand and relatively unspoilt charms of the islands regarded by many as a paradise for sun worshippers and divers, who can enjoy some of the finest coral and marine life in the Caribbean.

Being an offshore financial centre it is estimated that 10 per cent of the arrivals registered as tourists come to do business. Many combine this with a holiday, and often bring their spouse or friends to relax on the beach while the financial transactions are being made. A few of these visitors even buy a condominium or get involved in other investments on the islands.

The US is the source of 50 per cent of the islands' tourists, with close to 50 per cent of all arrivals coming equally from Florida and Texas. Another 10 per cent come from Jamaica, the Caribbean island with which Cayman was linked until Jamaican independence.

Despite the historical and continuing political ties as a British Crown colony, the UK is a poor source of tourists. 22 per cent of tourists last year. This was due in large part to the 2600 to 2800 east of a seven-day holiday.

As a tourist destination, the Cayman developed in a haphazard way. Twenty years ago the annual influx of tourists did not exceed 5,000, mostly divers and a few businessmen. Even while it grew as a financial centre, most investors who saw its tourism potential opted for condominium development, with

like the cruise ships to stay overnight, but the local police are happy to have one less problem to worry about.

The first two major hotels to be built on the island since Holiday Inn opened in 1973 are due to open their doors at the turn of the year. One will be operated by Hyatt Regency and the other, Treasure Island, is expected to be linked to the Best Western reservations system.

They will provide a major boost and challenge to the industry as they add 225 rooms of a higher quality, to the rather

drive has been launched and there are also high hopes that the Hyatt will attract new business in the form of convention visitors. It is also hoped that with further promotion the season can be extended into the summer.

To ensure that there will be enough "air" capacity, industry leaders are pushing for more passengers, Cayman Airways is stepping up its flight frequency by chartering an additional aircraft for the November to April high season.

Not everyone is happy with the way things are going. Some of the islanders wonder if there is any need for additional hotels given that there is full employment and the opening of new hotels will require the import of staff. Some fear that this could be a politically destabilising factor within the islands' tiny population of 20,000.

The inevitable pouching of staff by the new hotels is a concern for existing ones.

One veteran hotelier said: "I am not afraid of losing my customers to the Hyatt, after all I am on the beach and they made the mistake of building their hotel away from it on the other side of the increasingly busy West Beach road. What does bother me is that they will steal my staff."

On the other hand, the islands' operators of water sports facilities and of the surprisingly large number of restaurants can hardly wait for the hoped for influx. The real question is, however, whether success will spoil the still friendly and welcoming Cayman Islands.

The Cayman must attract half as many tourists again to keep the hotel industry viable

its quick returns, rather than hotels, which have had a very bad track record for investors in the Caribbean.

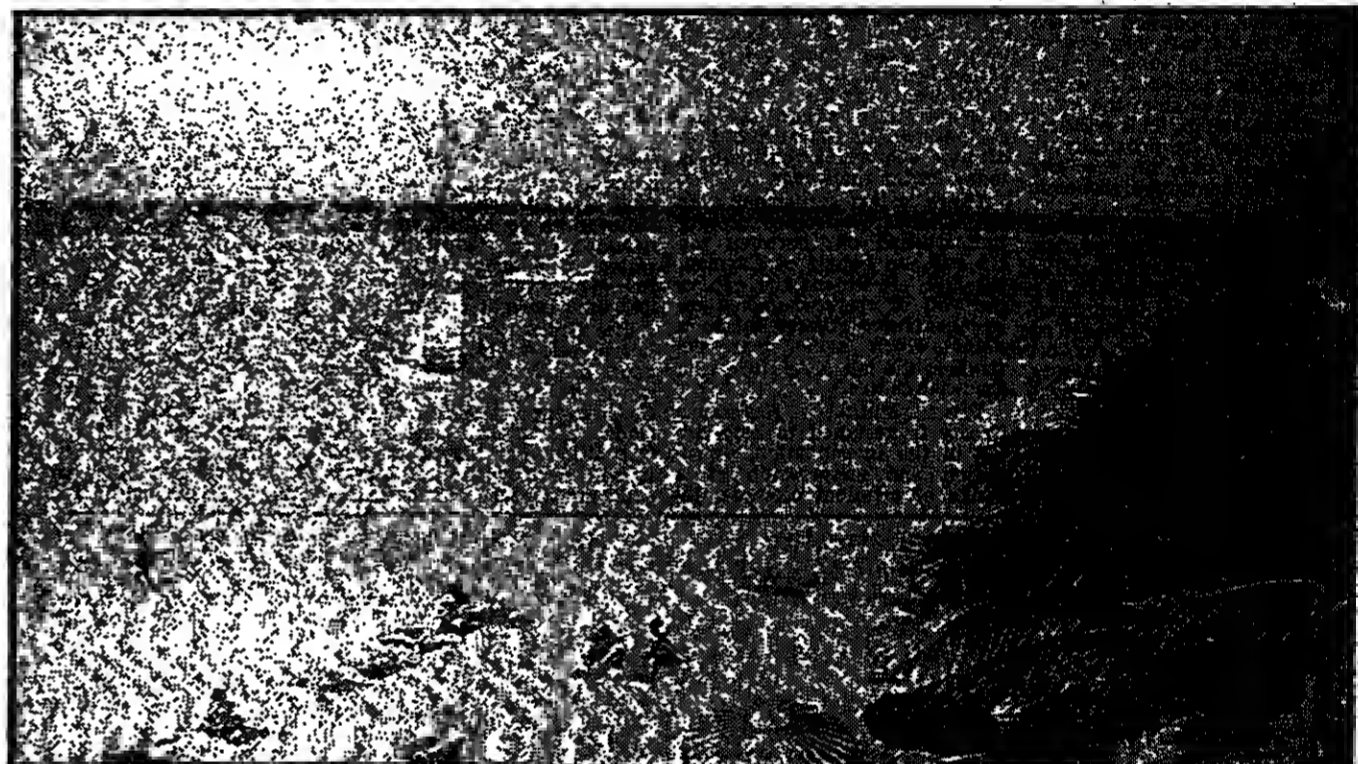
This year the total number of overnight tourists, staying an average of four nights, is expected to reach 175,000, a 17 per cent increase on 1985. Cruise ship arrivals are expected to remain flat, or decline slightly from the record 1985 level of 250,000.

Cruise ship visitors, sometimes disparagingly referred to as "seagull tourists" (they fly in, litter the place and fly out), stay only for a day. Despite the large volume of arrivals, cruise passengers contribute only 5 per cent of the revenue from the tourist industry. Some would

limited variety on offer in the existing 1,700 rooms. This will also bring the number of hotel rooms up to the same level as those available in condominiums.

With annual average hotel occupancy at a level of 60 per cent, the competition for new business is going to be fierce. According to Mr Eric Bergstrom, the director of the tourism department, the Cayman must attract 45 per cent more overnight tourists in 1987 to keep the hotel industry viable.

This dramatic increase must be achieved to ensure the hotels continue to operate profitably. A major promotional



More than 400,000 tourists will flow into Cayman this year, drawn by the relatively unspoilt islands, and bringing in the majority of its foreign exchange

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Sailing to the top

Profile:
Thomas Jefferson

LIKE JUST about everybody who is anybody in the Cayman, Mr Thomas Jefferson was a sailor in his youth. Today while still only in his mid-40s he is the islands' top administrator and the first official member of the ruling Executive Council.

Despite leaving school at the age of 14, Mr Jefferson battled to get an education and after a series of stops and starts—including three and a half years at sea and two years as a military policeman in the US army—he now holds a master's degree in administration.

His genial and easy going personality belies the toughness he experienced. "I had many jobs. When you are hungry you are not so selective, as long as it is legal." He does not regret this experience.

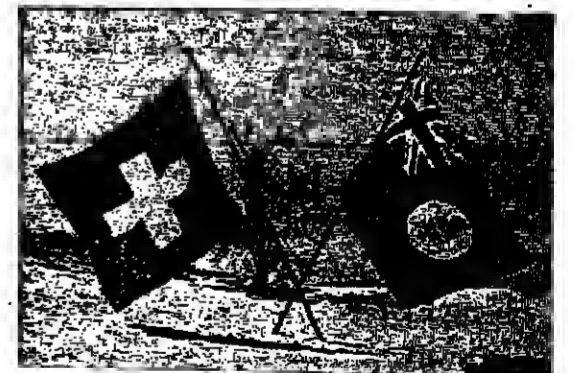
"If you come out at the end achieving something that satisfies you, why change it?"

His determination was recognised early within the administration and by the end of 1979 he had become principal secretary in the Department of Health, Education and Social Security. Just over two years later he moved to the key post of Finance Secretary. "On April 1, All Fools Day," he says with a broad grin.

Life has changed for Mr Jefferson and his people. He looks with some regret on the passing of the trusting relationships which characterised his youth. "If your neighbour spanked you, your parents did not complain because they knew you deserved it." He accepts that the strain development has put on family life has to be accepted as the "bitter that comes with economic progress."

Generally regarded as a Camanlian who will influence his country's future development, his ambitions are his own private affair. But one gauge could be a remark he made about not trying for too advanced an exam before being ready: "It is a devil of a thing to put your hat where you can't reach it."

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CAYMAN ISLANDS; a reliable and respectable place for business

From the Governor of the Cayman Islands His Excellency G. Peter Lloyd, CMG, CVO.



IT IS APPROPRIATE that the Cayman Islands should be the subject of a Financial Times Survey at this time. One reason is that it is just ten years since the last survey on Cayman, and in that time tremendous progress has been made in almost every segment of the economy.

A more significant reason, I believe, is that with the recent signing of the Mutual I legal Assistance Treaty with the United States, the Cayman Islands is set to begin a new chapter in the remarkable story of its development.

It was a sign of the stature that these three small islands have achieved that the treaty signing took place here, and that Cayman is a party to the first treaty of this type to be concluded between the United Kingdom and the United States.

As I said at that treaty signing, the 1984 Narcotics Agreement made plain that we were determined to deny shelter to drug traffickers. The treaty is evidence of our determination to fight all serious crime, and it should provide a solid foundation for the future development of our financial industry.

The Caymanian people, and the sophisticated operations which have grown up with their co-operation, share a common interest in having the Islands known and respected as a place resolute in shunning any links with crime. This is the message that can valuably go out at this time.

G. Peter Lloyd,
GOVERNOR.

IN JUST OVER 20 years the Cayman Islands have been transformed from a little-regarded trio of tropical islands into one of the world's leading offshore financial centres. An economy which struggled along on philatelic sales and seamen's remittances has expanded dramatically to become one of the most envied in the Caribbean.

This has been possible because of three basic reasons: A long history of political and social stability; sustained government policies ensuring complete freedom from direct taxation; and the friendly receptiveness of Caymanians to new ideas and people.

On the firm basis of these assets has been built our thriving and respected financial centre, while alongside it has grown the other pillar of our economy, tourism, taking advantage of our tropical climate, clear waters and white beaches. Complementing each other, these industries have attracted large amounts of capital from overseas investors assured by the policies of our government and the attitudes of our people.

This investment has financed large-scale construction of banking and office complexes to house the business sector, and of hotels and condominium apartments for use by our steadily increasing flow of visitors. At the same time, the government has been enabled by healthy annual budgets to embark on its own large construction programme so that we now have a range of handsome public buildings—Legislative Assembly, Law Courts, Government Administration, Police Headquarters, Broadcasting House—as well as new roads and schools and modern port, airport and hospital facilities.

The capital investment programme, continued by successive governments, has been part of a consistent policy aimed at promoting the greatest good for the greatest number of people. Aspects of this policy have included the provision of adequate social services to ensure the all-round welfare of the community, and the equipping of Caymanians to play their full part in their country's future so that an acceptable balance is maintained between them and residents of other origins.

The pattern of government development has continued through the 1980s, keeping pace with that in the private sector, in which there have been remarkable advances in telecommunications, power generation, hotels, condominiums, office buildings, restaurants, shops and other businesses.

Ten years ago, when the last Cayman Islands survey was published in the Financial Times, the Budget estimated revenue at under C\$12m, there were 216 banks and trust companies licensed, and just over 7,500 companies registered. Our insurance industry had not been launched, and our annual total of air and cruise ship arrivals had topped the 100,000 mark for the first time. The margin by which these figures have been exceeded illustrates the high rate of growth over the ten-year period.

Our Budget for the current year anticipates revenue at C\$68.9m, and in the first eight months over \$45.5m had been collected. We started the year with a deficit of \$1.1m from 1985 and previous years—a comparatively rare event—but with expenditure estimated at \$87.4m we expect to end the year with a surplus. It is a fact in which Caymanians take pride that our government has never needed grant-in-aid from Britain to balance the annual budget.

For over 40 years we were assisted by British development aid grants, but these ceased in 1975, to be replaced by interest-free loans. The last of these was received in 1980, and while we are grateful for the help that Britain provided in our years of difficulty we are happy and proud to pay our own way without reliance on the British taxpayer. Our credit is good, and among the borrowing sources we use for funding new projects the major one is the Caribbean Development Bank.

Our banking industry continues to grow, and we now have over 400 banks and trust companies licensed, which is more than in any financial centre. As a result of legislation enacted in 1979, Cayman has also become one of the leading centres for the re-insurance industry, and we have over 320 companies licensed, a figure surpassed only by Bermuda. And the successful promotion of our Islands has made them an increasingly popular vacation resort, visited last year by over 400,000 people arriving by air or cruise ship.

Just as investors feel safe in putting their money here, our visitors come—and often come again—because they find that in the Cayman Islands they can relax among friendly people, where crime is minimal and there are no social tensions. Most of our visitors by air

By the Hon Thomas C. Jefferson, OBE, JP, Financial Secretary, First Official Member of Executive Council, and Leader of Government Business in the Legislative Assembly.



get a Caymanian welcome aboard the Boeing 727s of our national airline, Cayman Airways, which provides daily service from Miami and Houston, regular services from Kingston, and charter services from New York, Detroit, Chicago, Atlanta and Tampa.

We expect an even larger increase in our arrivals total next year, when our two biggest hotels will be open. The Hyatt Regency (240 rooms) and the Treasure Island Resort (200 rooms) together represent an investment of over \$50m—which I see as a graphic and significant expression of confidence in our future as a tourist resort.

In every aspect of our development it has been the policy of Government to ensure that, while welcoming investment and expertise from overseas, every chance is given for Caymanians to participate in their country's prosperity. Nearly 900 people are employed in our financial institutions, and I am glad to say that over 75 per cent of them are Caymanians and that they are steadily rising to the highest levels of management and supervision in this key sector of our economy.

These have been termed "the Fortunate Islands" and this is true not least in the fact that we have had little or no unemployment and we have one of the highest standards of living in the Caribbean. And despite the fact that our population has risen rapidly to over 21,000, of whom more than 5,000 have come from over 50 other countries, we have retained an enviable social harmony.

The years when these Islands were remote from the world have been left far behind. Today we have the most modern forms of telecommunications available with satellite and marine cable links providing the telephone, telex, facsimile and databank services essential for our financial centre operations. With 250 telex sets in use we have the highest per capita provision of this facility in the world.

Nor has the government ignored the need to keep pace technologically. Early this year we installed the first DEC VAX cluster computer system in the Caribbean, supplementing a DEC-PDP 11/70 installed five years ago. About 70 per cent of government departments now have access to computer application systems or office automation.

Such provision shows our realization of the need to be forward-looking if Cayman is to remain in the forefront of international financial operations—a role reflected in the billions of Eurodollars involved in daily transactions here. We cannot afford to be complacent, for we are well aware of the potential fragility of a sector which depends on continuing confidence in Cayman as a reliable and respectable place to do business, as well as on world conditions beyond our control.

I have great confidence that, with public and private sectors working toward this common purpose, we shall maintain the image that has made possible our remarkable progress.

THE NEW TREATY

THE MUTUAL Legal Assistance Treaty, signed by the governments of the United Kingdom, the Cayman Islands and the United States in July, is a sincere effort by the three governments to overcome the difficulties created by attempts to use our confidentiality rules to hide criminal activity.

Our government has always aimed for a clean operation of our financial centre. This is not only good sense for the long term but it reflects the upstanding character of the Caymanian, whose Christian principles have led to the banning of casinos and all other forms of gambling.

At the same time, we have recognised the essential need of secrecy for the business transacted here, hence the Confidential Relationships (Preservation) Law, enacted in 1976 and reinforced by heavier penalties in 1979. We remain convinced that the legitimate investor has a right to confidentiality when he does business in our Islands, but in recent years we have been forced to recognise that this protection has been used to shield the international movement of illicit funds, especially those resulting from drug trafficking.

Because we shared this concern with the United States we entered into the Narcotics Agreement with them in 1984, and undertook at that time that providing the agreement worked satisfactorily we would negotiate a legal assistance treaty with them. Under the Agreement our Attorney General was required to obtain and provide information in Cayman on persons certified by the U.S. Attorney General to be involved in a narcotics-related investigation. Since the agreement took effect, evidence has been provided in about 60 cases and has assisted federal investigations of drug trafficking involving several hundred million dollars, with the result that a number of notorious drug traffickers have been jailed.

Under the treaty, the enabling legislation for which has recently been approved by the Cayman Islands Legislative Assembly, we have undertaken to provide information to assist investigation of a broader range of serious crimes. This is the first such treaty to be concluded between the US and Britain, and it is likely to be a model for others as there is a growing awareness among nations of the need to co-operate in combating international crime.

Some doubts and fears have been expressed about the effects the treaty may have on business conducted in our financial centre, but I am convinced that the treaty need cause no fears to anyone who does not engage in crime. And it is important to note here that we in Cayman do not recognise tax avoidance as a crime and the treaty specifically excludes tax offences unless they involve the unlawful proceeds of a crime covered by the treaty.

At the time the Narcotics Agreement was signed I said I felt it was a major step forward in ensuring the future of our financial industry. I believe this has been borne out by our experience in operating the Agreement, which has shown that our services and confidentiality rules have been abused, though not to the extent that some publications have claimed.

There were apprehensions, too, about the possible effect of the 1984 agreement upon financial business here, but these proved not to be justified—as illustrated by the fact that our total of licensed banks and trust companies increased by 49 that year. Those of us who carry the responsibility of supervision of our financial industry are content that whatever funds and operations moved away as a result of the agreement were undesirable and their departure is no loss.

In the same way, I expect the treaty to continue the process of setting the right tone for the future development of our financial centre so that reputable businesses are attracted to it. We have been greatly encouraged by the fact that since the treaty was signed we have had applications for banking licences from three large Japanese institutions—two of which are ranked as the world's largest and second largest. This means that 20 of the world's top 25 banks have licences here.

We shall continue to strive to provide an offshore base of unblemished reputation for such prestigious businesses, so that Cayman plays an increasing role in international finance.

The services and opportunities we offer

BANKING

THE CAYMAN ISLANDS have no central bank, and the money supply is regulated by the Cayman Islands Currency Board, a statutory body set up in 1972 when the Cayman dollar (C\$1 = US\$1.20) was first issued. The board maintains its reserves mainly in US dollar-denominated, government-guaranteed securities. At the end of 1985 the board's assets stood at C\$17.9m, and currency in circulation amounted to C\$11.3m.

Despite the lack of a central bank the Islands have developed a remarkably sophisticated banking system, which has grown rapidly into one of the foremost offshore banking centres in the world. In a British colony with a stable, progressive government sensitive to the needs of the banking community, banks have been keen to obtain licences to operate here. Other advantages include excellent communications, ready access to the eurocurrency market, a minimum of regulations, confidentiality protected by a law imposing heavy penalties, no taxation of profits, a readily available pool of legal and accountancy expertise, and effective prudential supervision. As a result there are now just under 500 banks and trust companies licensed by the government.

Nearly all licences issued in recent years have been to well-known banking corporations, and of the world's 25 largest banks 20 now have Cayman Islands licences. The largest number are from North America (38 per cent), with Western Europe (33 per cent) a close second, but overall banks from 51 countries are licensed. Total assets of the Cayman Islands operations of these banks reached some US\$175bn at the end of 1985, a figure reflecting the Islands' importance at the centre of the global eurocurrency market.

Two types of licence can be issued, "A" and "B," though there is also a restricted version of the latter which allows the licensee to deal only with certain named customers. In principle the distinction deal only with certain named customers. In principle the distinction between the two categories is one of function and not quality. An "A" licence bank, of which there are 30, may undertake domestic and offshore business, while a "B" licensee is limited to offshore business.

The Inspector of Banks and Trust Companies, seconded from the Bank of England under the technical assistance programme of the International Monetary Fund, carries out close supervision of the banks in accordance with the "Principles for the supervision of banks' foreign establishments," better known as "The Basle Concordat." Regular meetings are conducted with the banks and internationally accepted standards are required. Banks have come to expect supervision and the close, effective, prudential supervision carried out in the Cayman Islands meets this specification.

COMPANY REGISTRATION

NEARLY 18,000 COMPANIES are registered in the Cayman Islands, for purposes of investment, sales, trading, shipping, insurance, real estate and a wide variety of other aspects of international finance and commerce. To the benefits of operating in the Islands' stable, tax-free environment are added the advantages of an efficient, computerised system of company registration and ample availability of company management expertise. Companies can be incorporated in two or three days.

The Companies Law is based on the United Kingdom's Companies Act, 1948, with amendments to suit the offshore situation. Four types of company may be registered: Companies limited by shares; companies limited by guarantee; unlimited companies; and non-profit associations. They may be either ordinary companies, exempted companies, or foreign companies.

Exempted companies, which form a large majority of those on the register, are licensed to operate offshore. They can enjoy a government guarantee that should direct taxation ever be introduced they will be exempt from it for at least 20 years.

Anonymity is guaranteed by a strict confidentiality law. Nominee shareholders may be registered by exempted and ordinary companies, so that the beneficial shareholders are not recorded or known to the Registrar. Alternate directors may also be appointed, easing the statutory requirement of holding an annual meeting in the Islands.

A recent law amendment allows a company to be formed with only one subscriber. It is also an advantage that an exempted company does not have to file audited annual accounts.

Grand Cayman is well supplied with companies providing company management services, most of them being associated with local legal firms and accountancy practices. They are subject to registration and regulation by the Registrar. Such firms are able to provide registered offices, nominee directors and other similar services.

For a foreign company, which is a company incorporated outside the Islands but carrying on business within the Islands, simplified registration procedures apply.

Enquiries about company formation may be addressed to: The Registrar of Companies, Tower Building, Grand Cayman, BWI. Tel: (809) 94-97999.

INSURANCE

AS A DOMICILE for offshore captive insurance companies, the Cayman Islands are second only to Bermuda in the number of captive insurance companies licensed to transact business.

Our Insurance Law came into effect in June, 1980, when all companies issuing insurance policies, or whose title suggested they were in any way connected with the insurance business, were required to submit an application for a licence. Many submitted applications, though others did not and chose to liquidate or relocate.

We now have 323 active companies submitting annual accounts, and because of the very unsettled state of the international insurance market, and severe lack of available capacity, the number of licence applications had increased dramatically over the past year.

The Islands are now well organised to take advantage of the present interest in captive insurance companies, and many of the biggest corporations in North America have seen the advantages of setting up captives here.

We have 30 licensed Underwriting Managers (including some of the biggest names in insurance broking), and they also come under the framework of the Insurance Law.

We have ample auditing and accounting expertise (including all the "Big 8" accountancy firms) and some innovative legal minds to advise and assist potential licensees.

We have a separate insurance department, with insurance and accounting expertise, and we have room for expansion. A licence application can be processed within four to six weeks.

A copy of our booklet, "Cayman Islands Guide to Offshore Insurance, 1986-87" may be obtained by writing to: The Department of Insurance, Government Administration Building, Grand Cayman, BWI.

The Government of the Cayman Islands

Government Administration Building

Grand Cayman, BWI

Telephone: (809) 94-97900 - Telex: CP 4260 CIGOVN

Representative in the United Kingdom:

Mr. Thomas Russell, CMG, CBE,

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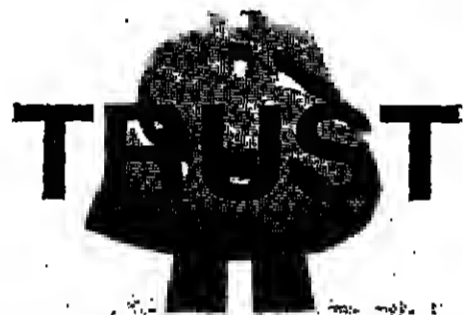


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Insurance

Curbs may control boom

THE INSURANCE business in the Cayman Islands is booming, with applications for new licences at an all time high. But some fear a slowdown could be imminent, because of new US legislation and agreements concerning offshore tax havens.

Today there are 328 active licensed captive insurance companies registered in Cayman, managing and reinsuring the risks of their parent companies and affiliates. In addition there are 80 underwriting management firms. The cautious estimate by officials is that these companies will generate some US\$1.5bn in premiums this year.

There were a record number of applications to register insurance companies in the first six months, 58 compared with 49 for all of 1985. Even in 1982, the previous peak year, the half-year total was only 42.

But this silver cloud has a grey lining in the form of two recent moves by the US Government designed to curb offshore insurance activities. The first blow came with the waiving of US federal excise tax on insurance premiums paid in Barbados, and soon in Bermuda too. The second is the plan to sharply reduce the percentage of US ownership required in an offshore company before its profits become liable to US taxation.

The Barbados and Bermuda treaties allow relief from the federal excise tax of 4 per cent on direct insurance premiums and 1 per cent on reinsurance premiums. This was granted in exchange for the island's cooperation with the US Government in tracking down tax avoidance and evasion by US citizens.

The agreement has been in force in the Barbados since

February and has drawn away some new business from the Caymans. The Bermuda treaty, expected to be ratified by the Senate before the end of this year, may have a much more serious impact as it is the largest offshore insurance centre in the Caribbean.

The fear is that this cost saving will adversely affect the Cayman, which has already seen some business going to Barbados. This is particularly disappointing for the insurance community, which experienced a revival of business in late 1984 and 1985 following the slowdown of 1983.

But these worries are overshadowed by fears over the proposed revision by Washington of the regulations governing the taxation of undistributed profits of companies overseas. The idea is that only 25 per cent ownership of the capital of a company need be liable to taxation. This is less than half the existing ownership requirement.

This could have a dramatic impact on offshore insurance operations. "We are in a state of hiatus, not knowing what will be the eventual outcome. But this could be an even more serious problem than the federal excise tax issue," says Mr Don Westwoodland, managing director of Transnational Risk Management and chairman of the Cayman Underwriting Managers' Association.

Mr Anthony Stilling of Samuel Montagu (Cayman) is less pessimistic though clearly wary. "This will slow down affairs until equivalent parts of the new legislation are clarified and new formulas formulated so that they do not fall into the

US tax net," he explains.

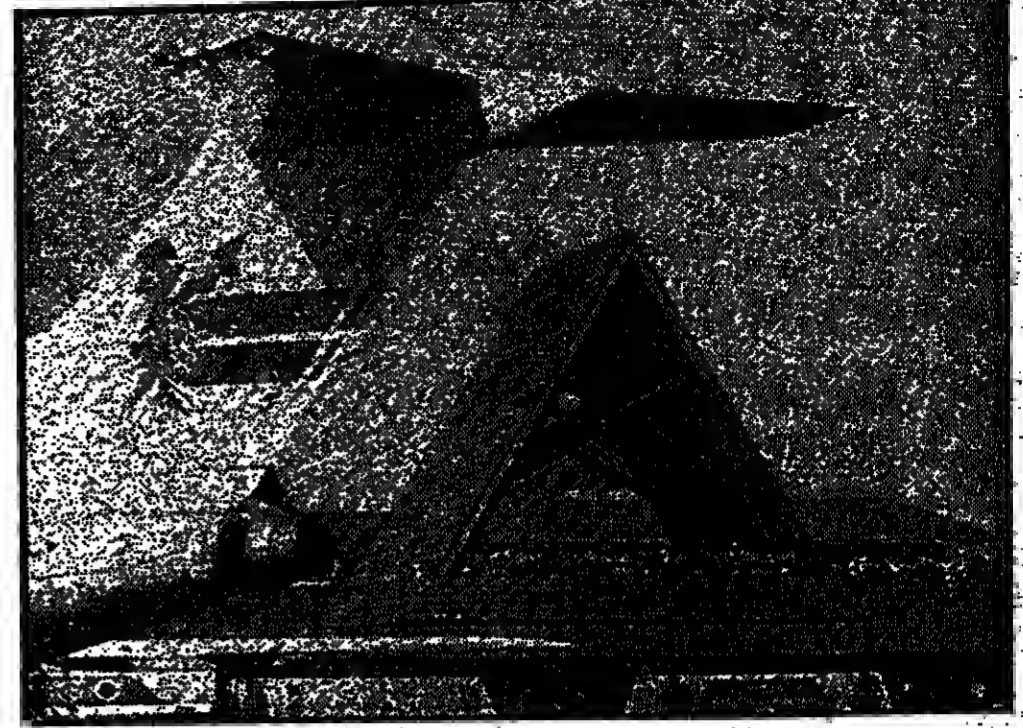
Cayman has not seen companies leave so far, according to Mr Peter Bates, the Government's supervisor of insurance. But he admits that some of the larger ones may pull out when the new US offshore insurance taxation proposals come into effect. However, at the moment, "we are still receiving applications," he says, pointing to this year's record figures.

Cayman emerged as a serious insurance and reinsurance centre after June 1980 when the new insurance law became operational and forced a clean out among the 500 companies registered under the Companies Act which had the word insurance in their names. It was often impossible to tell in those days whether a company was engaged in genuine insurance or was helping in tax evasion in other countries, or providing a vehicle for fraud.

The new legislation required the insurance companies to register and comply with certain, far from onerous conditions. Some 300 applied and 250 were approved. This number has now grown to 320 "genuine insurance companies," as Mr Bates describes them.

At the heart of the island's insurance regulatory system is the certificate which states that the insurer has complied with the information in its licence application, signed by the underwriting manager or auditor, it is lodged with the superintendent and thereafter regulatory interference is minimal.

This, to a large extent self-regulatory arrangement, together with the enforcement of strict business secrecy, has



Aerial symmetry: Cayman Airways, far from taffing off, is stepping up flights to handle convention business

helped boost the tax-free island as an attractive place to write off-shore insurance. These are the very elements which have worried developed countries who see it as an opening for tax evasion.

Lawmakers and regulators in countries such as the US are concerned about this because they are aware of the relative ease with which money can be transferred as reinsurance, with scant regard for national boundaries. Because of Cayman's secrecy laws, it is extremely difficult to trace deliberate insurance frauds, except in the case of crimes which sometimes could only be

proven if the Cayman was to release the information which it so zealously guards.

Much of the growth in the offshore sector has come from the captive insurance market, with 80 per cent of the companies being from the US. Canada and the UK are the second largest source of business while the remainder comes from the rest of the world.

The Cayman has specialised in association-type captive insurance companies. These are created by like minded individuals or organisations which combine to insure their risks. More than 30 per cent of the companies registered fall into

this category. Cayman has established a name for itself in the medical malpractice association field since Harvard Medical School decided to locate its operations on the island some years ago after being turned down by Bermuda.

This type of operation is second in number only to the 45 per cent share of the single parent type.

The direct contribution to the Cayman budget is some C\$1.7m in fees, plus a hard-to-quantify amount derived from employment, the construction, purchase and rental of buildings, servicing and ancillary secondary services.

Companies

US treaty pierces veil of secrecy

THE NUMBER of companies registered on the Cayman Islands has tripled in a decade and in spite of a slow-down in growth over the past couple of years their incorporation and annual fees now provide more than 10 per cent of the budget.

The volume of company business which has been hard to track because of a lack of reporting requirements, is believed to have increased even more dramatically in this period.

The pace of new company registration has fallen from the peak during 1980-82 when it reached 3,000 annually. In the past couple of years new registrations has averaged about 2,000 per annum. There was a modest turnaround in 1985 and the figures for the first half of this year continued the renewal of growth.

With companies being removed from the register at the rate of some 1,500 a year, usually for failing to pay annual licence fees for two years, the total number of companies has grown slowly in recent years and stood at about 12,700 by the middle of 1986, according to Mr Woodward Terry, the Registrar of Companies.

Companies are a good source of revenue for the islands which will earn C\$7m from incorporation and annual fees this year. They also create employment for lawyers, accountants, management and bank trust companies and clerical staff.

Freedom from taxation, the proximity of the US where the bulk of new business originates and the ease with which companies can be formed in the Cayman are some of the major reasons why so many companies have registered.

Until 1984 the assurance of complete confidentiality could have been added to the list of benefits that guarantees was weakened by the 1984 Narco-

tics Agreement which allowed the US authorities access to the records in the Cayman of companies or individuals suspected of involvement in drugs trafficking.

The new Mutual Assistance Treaty has rendered the promise of secrecy almost worthless. The US is now entitled, under certain circumstances, to look into the accounts of a company or person believed involved in any of a wide range of criminal offences.

Though all matters relating directly to taxes have been excluded from the treaty, it is uncertain how long this situation will continue. Having won the right to pierce the veil of secrecy where drugs and criminal activities are concerned, Washington is clearly intent on closing the loopholes which allow its citizens to use tax havens to avoid or evade taxes. (This distinction does not exist on tax-free Cayman).

It is expected that the treaty may produce another slowdown in company registrations while

New Company Registrations

| | Ordinary | Exempt | Total |
|---------|----------|--------|-------|
| 1976... | 638 | 639 | 1,281 |
| 1977... | 710 | 840 | 1,576 |
| 1978... | 826 | 1,011 | 1,965 |
| 1979... | 1,020 | 1,497 | 2,533 |
| 1980... | 1,129 | 1,751 | 2,979 |
| 1981... | 1,151 | 1,836 | 3,052 |
| 1982... | 948 | 1,927 | 2,930 |
| 1983... | 683 | 1,549 | 2,284 |
| 1984... | 679 | 1,251 | 1,964 |
| 1985... | 745 | 1,226 | 2,017 |

Source: Cayman Registrar of Companies.

the market absorbs its implications. It is also thought that some business fearful of prying eyes may be withdrawn from the Cayman. But most experts believe these will be temporary adjustments with growth being resumed after a pause, as was the case following the Narcotics Agreement.

While banking and insurance are now carefully regulated, there is only minimal

regulation of the companies on the register, they can operate with nominee shareholders; they do not have to hold an annual meeting; they can alter their articles of association without restriction and they do not have to disclose financial information.

One official admits that companies can be registered too easily, "without any one enquiring into their bona fides. Our act is not as clear as it ought to be because crooks can bring impeccable references when wishing to do business," the official comments frankly.

The large management firms, trust companies and legal offices do, perhaps, provide some safeguard against the establishment of companies intended as vehicles of fraud or set up for money laundering. But smaller operators and newcomers to the field cannot afford to be as choosy in who they accept as their clients.

The new treaty has intensified the worries that they could be implicated in wrongdoings

about which they know nothing. Mr Casey Gill, president of the Law Society, explains: "Our concern as lawyers is that under the treaty we may get into an exposed situation for dealing with a criminal, though we did not know he was a criminal."

Mr Paul Harris, a chartered accountant and president of International Management Services, says: "In future we will want to know the source of the funds of the companies we work with." He believes the Cayman financial industry should seek business further afield than the US and also move from the copying to the innovative stage.

"Banking and insurance were copied from Bermuda and the Bahamas. We should be advising mutual funds and the entertainment industry to set up here." He points out that often "the investment in a film comes from one country, it is shot in another, the stars are British, the director American and the royalties come from all over the world." The only sensible solution is an offshore company.

Human dynamo still sparks

Profile: Jim Bodden

"LIFE is a street with two sidewalks and you must walk down one side or the other, there is no neutrality. So I guess I create a lot of enemies," says Mr Jim Bodden, the man who continues to dominate Caymanian politics two years after losing the elections.

"Mr Jim," as he is known to all, sits passions among both friends and enemies, of which he seems to have equal amounts. You may like him or you may hate him, but no one is indifferent to Cayman's flamboyant human dynamo.

His supporters believe that he is responsible for the island's massive development in the past decade. His critics blame him for being dictatorial, cutting corners and being too prone to looking after his own. He dismisses his opponents as "idiots and incompetents."

"My people trust me because they know that I make quick decisions and cut through all

the bureaucracy. I do not lean towards the civil service at all. They say I was a dictator, but we got things done," he says in explanation of both his personal popularity and the success of his administrations in developing the island.

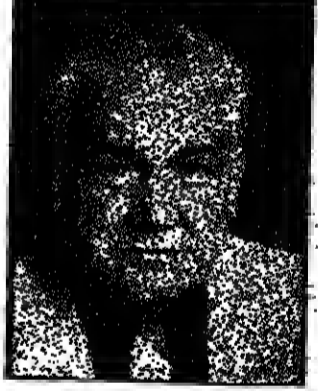
Though there is no prime minister under the Caymanian political structure, there was no doubt that for the eight years between 1976-84 Mr Jim was prima facie, most definitely the leader among those formally his equals.

Now at the centre of the major storm over the Mutual Assistance Treaty with the US, which threatens to rent great holes in the commercial secrecy laws, he says: "I was ready to retire; I have a girl friend 20 years younger than me and was learning to relax."

But then I realised that this Government is ruining the country and that my job is not yet done." He admits to enjoying being at the helm. "I'm a salesman

and love making deals. I have made more money than anyone on the island and lost fortunes and made them again," he says proudly, while chain-smoking in spite of a minor heart attack just before his recent 66th birthday.

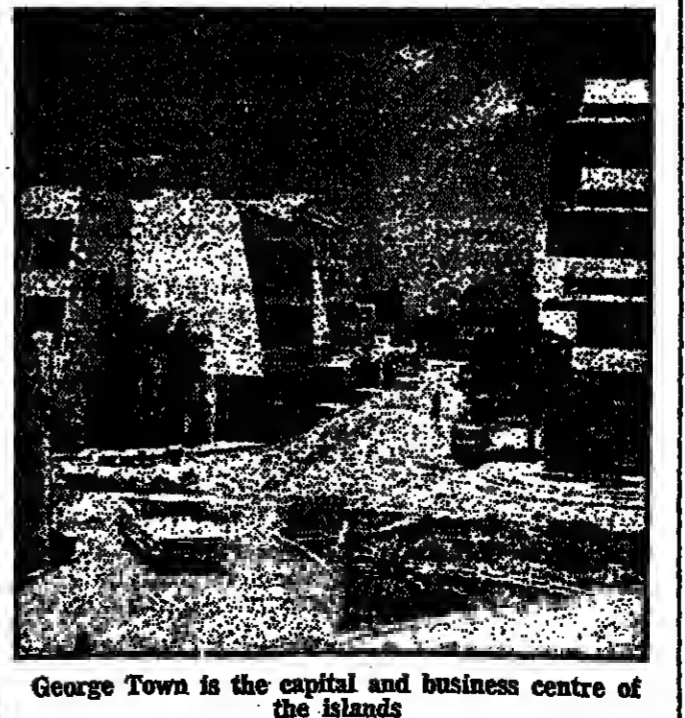
How long will he continue to fight the political battles? "I will not step into the shadows until we have new elections. If my group loses, then I will shut up and retire from politics."



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George Town is the capital and business centre of the islands

LONDON RECENT ISSUES

Table of London recent issues including equities, fixed interest stocks, and rights offers.

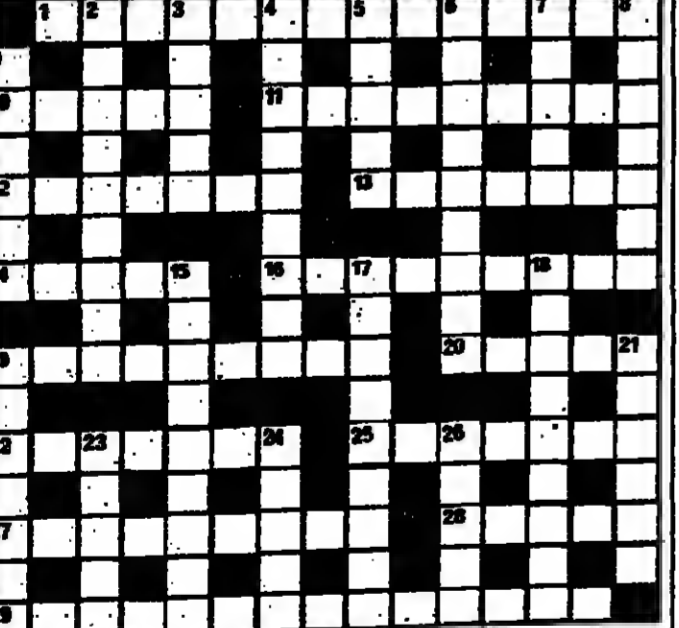
Table of London recent issues including equities, fixed interest stocks, and rights offers.

Table of London recent issues including equities, fixed interest stocks, and rights offers.

Remuneration data usually last day for dealing free of stamp duty. A Annualised dividend. F Figures based on prospectus information. D Dividend rate per share or percentage on part of capital, cover based on dividend on full capital.

FINANCIAL TIMES SURVEY: The Financial Times proposes to publish a MANAGING ENERGY SURVEY on December 2, 1986, copy date November 14. The following subjects will be covered: 1. Introduction, 2. Popularising Money, 3. Ideal Homes, 4. New Public Buildings, 5. Decision for Industry, 6. Materials and Methods, 7. The Specialists, 8. Miles per Gallon, 9. Which Fuel.

FT CROSSWORD PUZZLE No. 6,173



ACROSS: 1 A vacancy, having no bias (4-10), 10 Waste away in so returning to perch (5), 11 To make two at least a purse I'll change (9), 12 A master who works on sound foundations (7), 13 A point the French intended, by the sound of it (7), 14 Leave out about a thousand to economise (5), 15 Declaration that is false rots in sea (9), 16 One of twenty usually that come to light (9), 17 Nothing in rich organisation suggests harmonious group (5), 18 Strip off peel (7), 19 Happy he has an itchy finger (7), 20 To that route, then interchange (9), 21 Can Nalga keep secret a recorded item? (5), 22 Link mail? (14), 23 Showing I'd be in furnishing (9).

AUTHORISED UNIT TRUSTS

Large table listing various unit trusts and their performance data, including names like Abbey Unit Trust, Allied Overseas Unit Trusts, and various fund managers.

FT UNIT TRUST INFORMATION SERVICE

Large table providing detailed information for the FT Unit Trust Information Service, including names of unit trusts, their managers, and performance metrics.

AUTHORISED UNIT TRUST & INSURANCES

Main table containing financial data for various insurance and unit trust companies, including names, addresses, and financial metrics.

INSURANCES

Detailed table listing insurance companies and their products, organized by company name and policy details.

Handwritten signature or initials at the bottom right corner of the page.

INSURANCE, OVERSEAS & MONEY FUNDS

Main table containing financial data for various insurance, overseas, and money funds. Includes columns for fund names, descriptions, and numerical values.

Money Market Trust Funds

Money Market Bank Accounts

TRADITIONAL OPTIONS

3-month call rates

Table listing traditional options and 3-month call rates for various financial instruments.

NOTES
Price of each share is indicated and does not include a 1% commission.
Prices of certain other securities listed in this column are subject to change without notice.

BRITISH FUNDS

Table listing various British funds with columns for Name, Price, and Yield. Includes sub-sections for 'Short' (Lives up to Five Years) and 'Five to Fifteen Years'.

AMERICANS

Table listing American funds with columns for Name, Price, and Yield. Includes sub-sections for 'Short' (Lives up to Five Years) and 'Five to Fifteen Years'.

CANADIANS

Table listing Canadian funds with columns for Name, Price, and Yield.

LONDON SHARE SERVICE

Main table for London Share Service, organized into columns for different sectors: BUILDING, TIMBER, ROADS, CHEMICALS, PLASTICS, DRAPERY AND STORES, FOOD, GROCERIES, BEERS, WINES & SPIRITS, COMMONWEALTH & AFRICAN LOANS, FOREIGN BONDS & RAILS, AMERICANS, and BUILDING, TIMBER, ROADS (repeated). Each entry includes company name, price, and other financial data.

ENGINEERING - Continued

Table listing engineering companies with columns for Name, Price, and Yield.

INDUSTRIALS - Continued

Table listing industrial companies with columns for Name, Price, and Yield.

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INDUSTRIALS - Continued. Table listing various industrial stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

LEISURE - Continued. Table listing leisure-related stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

PROPERTY - Continued. Table listing property-related stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

INVESTMENT TRUSTS - Cont. Table listing investment trusts with columns for Stock, Price, Last, Bid, Offer, and YTD %.

FINANCE, LAND - Cont. Table listing finance and land-related stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

MINES - Continued. Table listing various mining stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

MOTORS, AIRCRAFT TRADES. Table listing motor and aircraft trade stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

NEWSPAPERS, PUBLISHERS. Table listing newspaper and publisher stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

PAPER, PRINTING, ADVERTISING. Table listing paper, printing, and advertising stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

SHOES AND LEATHER. Table listing shoe and leather stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

SOUTH AFRICANS. Table listing South African stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

TEXTILES. Table listing textile stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

INSURANCES. Table listing insurance stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

PROPERTY. Table listing property stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

TRUSTS, FINANCE, LAND. Table listing trusts, finance, and land stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

FINANCE, LAND, etc. Table listing finance, land, and other stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

MINES. Table listing mining stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

REGIONAL & IRISH STOCKS. Table listing regional and Irish stocks with columns for Stock, Price, Last, Bid, Offer, and YTD %.

Notes and miscellaneous information including 'Notes', 'Plantations', and 'Overseas Traders'.

Regional & Irish Stocks section with specific stock listings and prices.

WORLD STOCK MARKETS

AUSTRIA 1986 High Low Nov. 7 Price Frs. 9,200 8,076 Creditrat pp 3,200 9,200 8,076...

FRANCE 1986 High Low Nov. 7 Price Frs. 1,011 1,472 Emprunt 4 1/2 177,180 1,011 1,472...

AUSTRALIA 1986 High Low Nov. 7 Price AUST. \$ 4.1 2.55 Adelaide 14.5 2.55...

JAPAN 1986 High Low Nov. 7 Price Yen 1,070 1,100 Alameda 700 1,070...

CANADA TORONTO Prices at 2:30pm November 7 588 AMCA Int 111 11 11...

MONTREAL Closing prices November 7 8972 Bank Mont 204 254 329 8972...

ITALY 1986 High Low Nov. 7 Price Lire 24,995 19,950 Banco Com'l 25,000 24,995...

NORWAY 1986 High Low Nov. 7 Price Kroner 191 148 Borgens Bank 191 148...

GERMANY 1986 High Low Nov. 7 Price DM 2,076 2,076 AEG 311.8 2,076...

NETHERLANDS 1986 High Low Nov. 7 Price Gld 68 44.5 ACP Holding 68 44.5...

HONG KONG 1986 High Low Nov. 7 Price H.K. \$ 29.2 17.4 Bank East Asia 20.1 29.2...

SOUTH AFRICA 1986 High Low Nov. 7 Price Rand 5.00 1.75 Abernethy 5.7 5.00...

SPAIN 1986 High Low Nov. 7 Price Ptas 1,255 413 Rio Huelva 1,255 413...

SWITZERLAND 1986 High Low Nov. 7 Price Frs. 8,375 4,480 Adia Int'l 4,475 8,375...

INDICES NEW YORK 1986 High Low Nov. 7 Price Comp. 4,122 4,122 Dow Jones 4,122 4,122...

INDICES AUSTRALIA 1986 High Low Nov. 7 Price AUST. \$ 227.55 227.55 All Ordin. (11/9) 227.55...

INDICES CANADA 1986 High Low Nov. 7 Price 1,157.2 1,157.2 S&P 300 1,157.2...

INDICES SOUTH AFRICA 1986 High Low Nov. 7 Price Rand 128.5 128.5 All Share 128.5...

INDICES SWITZERLAND 1986 High Low Nov. 7 Price Frs. 2,076 2,076 AEG 311.8...

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INDICES SPAIN 1986 High Low Nov. 7 Price Ptas 1,255 413 Rio Huelva 1,255...

N. AMERICAN QUARTERLY RESULTS CLARK EQUIPMENT Net profit 1986-87 2.2m 27.6m Year 1986-87 2.2m 27.6m...

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NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, November 7

Main table of stock prices with columns for stock name, price, and change. Includes sub-sections for '12 Month' and 'D D D'.

Continued on Page 43

NYSE COMPOSITE CLOSING PRICES

AMEX COMPOSITE CLOSING PRICES

Table of NYSE Composite Closing Prices. Columns include Stock, High, Low, Open, Close, and Change. Includes sub-sections like 'Continued from Page 42' and 'R R R'.

Table of AMEX Composite Closing Prices. Columns include Stock, High, Low, Open, Close, and Change. Includes sub-sections like 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

OVER-THE-COUNTER Nasdaq national market, closing prices, November 7

Table of Over-the-Counter (Nasdaq) Closing Prices. Columns include Stock, High, Low, Open, Close, and Change. Includes sub-sections like 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

AMSTERDAM/DELFT/EINDHOVEN GRONINGEN/DE HAGUE/HAARLEM/HEEMSTED/ LEIDEN/LEIDERDORP/OEGSTGEEST/ RUSWIJK/ROTTERDAM/UTRECHT/WASSENAR THE NETHERLANDS

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CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

News no longer upsets the dollar

By COLIN MILLHAM

SENTIMENT SURROUNDING the dollar has changed. Bad news no longer sends dealers rushing to sell the currency, and good news generally provides a further excuse to buy.

Japanese institutional investors and this was hard to judge. About 90 per cent of the 10-year notes and 94 per cent of the 30-year bonds sold at auction were taken up by the New York district, which means the US investment banks such as Morgan Stanley and Salomon Brothers were making a "bullet" bid for about 33 per cent of the 30-year bonds at a yield of 7.50 per cent, but this soon proved groundless, and dealers quickly revised their expectations to a figure fairly near the final outcome.

not take it well. The average yield of 7.54 per cent was not as low as at one time hoped. The market was full of rumours in the early stages of Thursday's auction, and it was suggested Salomon Brothers were making a "bullet" bid for about 33 per cent of the 30-year bonds at a yield of 7.50 per cent, but this soon proved groundless, and dealers quickly revised their expectations to a figure fairly near the final outcome.

unchanged rate of 7 per cent compared with forecasts of 6.8 per cent to 7 per cent, but a more encouraging factor for the dollar was a rise of 298,000 in non-farm employment, against expectations of 185,000 to 210,000.

The impact was muted however, and the US currency was unable to move up to a new trading range. This was the only important economic news released last week. This week forecasters see a rise of about \$8m in today's September US consumer credit, largely because out price finance deals encouraged a high level of car sales.

Friday will be a heavy day as far as US retail sales are concerned. October statistics are expected to fall about 4 per cent to 4.4 per cent, although Morgan Stanley has forecast a decline of 5.6 per cent, reflecting the drop in car sales as finance incentives have come to an end. Inflation is forecast to remain under control, with October retail prices rising a modest 0.1 per cent to 0.2 per cent. Industrial production for the same month is expected to show an equally modest increase of 0.2 per cent, but in the present circumstances these figures should be enough to keep a firm base under the dollar.

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Table with columns: Liffe 5% Options, Liffe 10% Index, Liffe 100 Index, Liffe FT-SE 100 Index Futures Options

Table with columns: Philadelphia SE 2 1/2 Options, Liffe 100 Index, Liffe FT-SE 100 Index Futures Options

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Table with columns: EMS European Currency Unit Rates

Table with columns: Exchange Cross Rates

Table with columns: Euro-Currency Interest Rates

Table with columns: Pound Spot - Forward Against the Pound

Table with columns: Dollar Spot - Forward Against the Dollar

Table with columns: Money Markets

Table with columns: Sterling Index

Table with columns: Currency Movements

Table with columns: Currency Rates

Table with columns: Other Currencies

Table with columns: Forward Sterling

Table with columns: Money Markets

CEDEL HAS CLEARED US \$ 1,000,000,000.000 TRANSACTIONS IN EURO-SECURITIES SINCE 1ST OF JANUARY 1986 WE THANK OUR PARTICIPANTS FOR THEIR SUPPORT

Table with columns: Money Markets

MONEY MARKETS Cautious optimism in London LONDON WHOLESALE interest rates were slightly softer last week, but the yield curve was almost flat on money market rates from the overnight through to the year, suggesting there was little confidence in predicting the future trend.

The Autumn Statement by Mr Nigel Lawson, Chancellor of the Exchequer, left dealers rather confused. The gilt market reacted predictably to fears of a Government U-turn on economic policy, with long dated stocks showing losses of about 1% on Friday, after dealers had a chance to digest Thursday's news. Fears centred

on the possibility of rising inflation and a weaker pound on the announcement that UK public spending in 1987-88 will total £148.5bn, a rise of £7.7bn from the figure published in the Budget. According to a survey of 11 economists working for London based market makers, conducted by Money Market Services, before Mr Lawson's speech, public spending was forecast to rise by only £1.5bn from the Budget projection.

Table with columns: FT LONDON INTERBANK FIXING

Table with columns: BANK OF ENGLAND TREASURY BILL TENDER

Table with columns: WEEKLY CHANGE IN WORLD INTEREST RATES

Table with columns: LONDON MONEY RATES

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